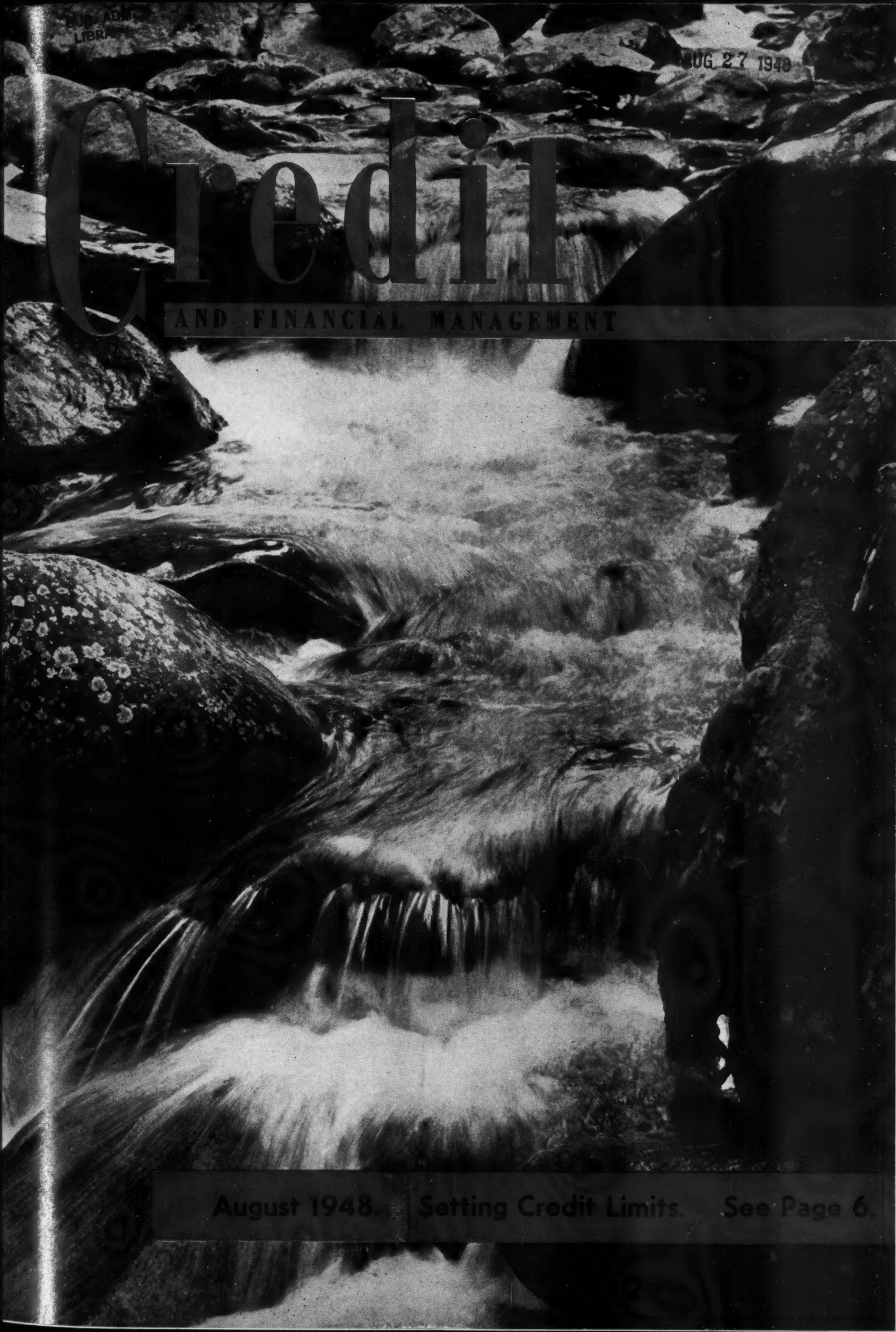
Credit
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August 1948. Setting Credit Limits. See Page 6.

All Departments of Your Company Can Use This NACM Service

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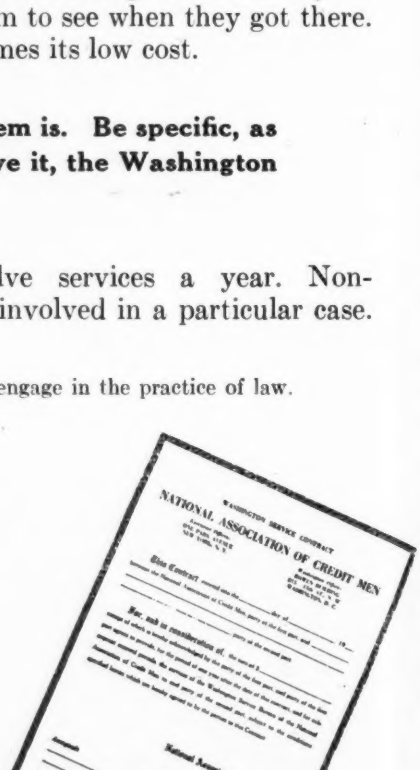

WASHINGTON SERVICE BUREAU

National Association of Credit Men

Bowen Building, 815 15th Street, Washington, D. C.

Credit

AND FINANCIAL MANAGEMENT

Contents for August, 1948

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To Labor and To Wait

Every American worthy of the name must have felt a sense of satisfaction in the belated justice accorded former President Herbert C. Hoover in the past Congress. In addition the stirring ovation given him in Philadelphia was long overdue. In retrospect it seems shameful that our people could be so dilatory in challenging the smear campaigns so frequently indulged in against men and women whose statesmanship and patriotism should never be questioned. Our acquiescence in these tactics is a poor example of American moral courage and is wholly repugnant to our traditional rule of fair play.

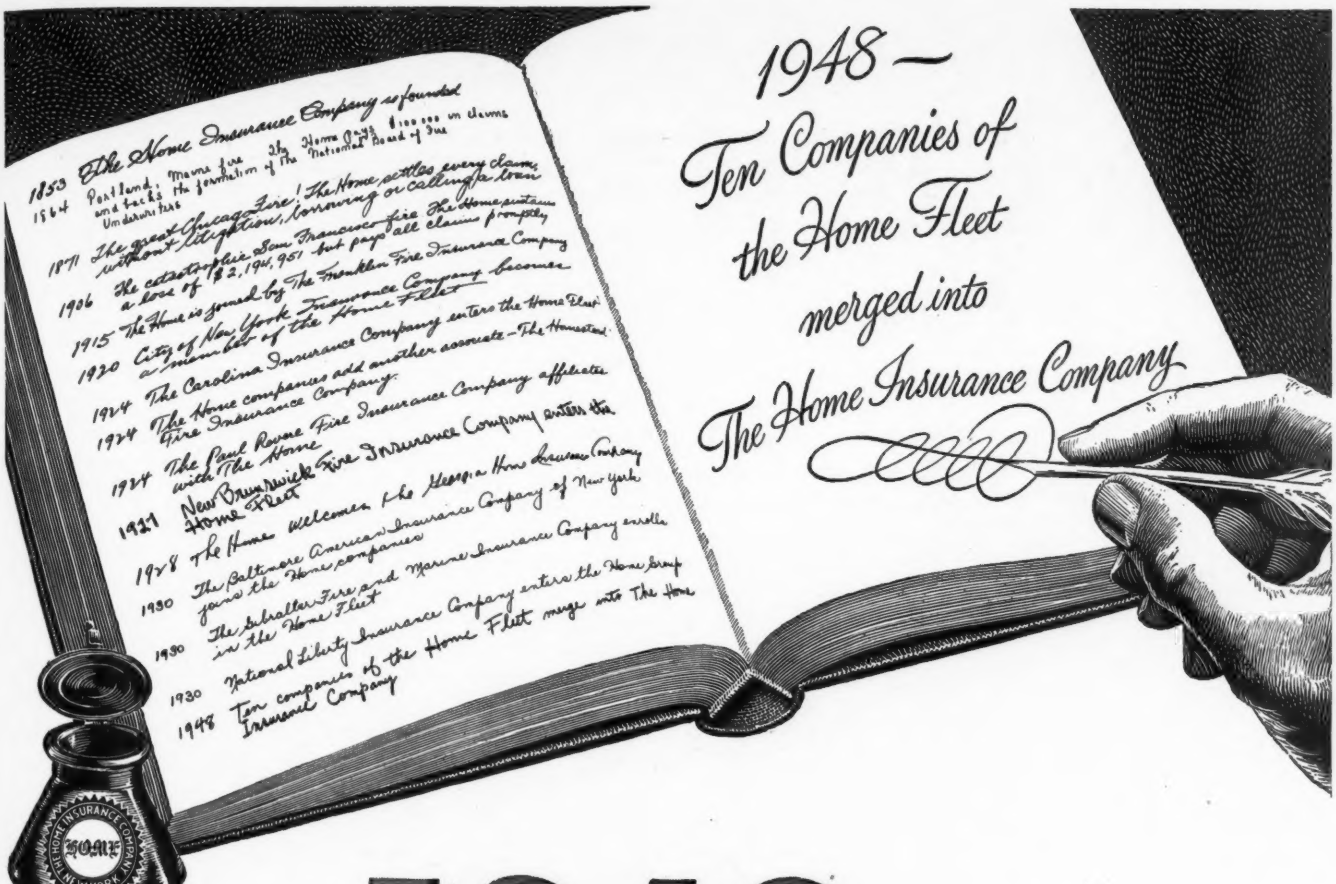
It is a tribute to the men and women who have been the victims of these cowardly attacks that they have never swerved in their determination to be of service to their country despite the ingratitude shown them. It confirms their strength of character and is in sharp contrast to the slanders bruited abroad by their enemies.

Some day the attempts to prevent economic chaos in the early '30's courageously made by the former President may come to light, such as his valiant effort to prevent the banking collapse. When these truths are known, Herbert Hoover will tower even further above those who assailed him and turned a deaf ear to his plans which might have saved this nation much of the suffering it endured.

It is hoped that other Americans, who were subjected to campaigns of innuendo and accusations of treason because they dared tell the truth and warn their country, may be given justice in the years ahead. American decency may yet get around to righting wrongs done to such men as Charles Lindbergh and others who have been victimized by these irresponsible and unprincipled politicians. The time to apologize is now, not, as in the case of Billy Mitchell, after they have died of a broken heart.

Henry H. Heimann

HENRY H. HEIMANN,
EXECUTIVE MANAGER



1948...

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Credit Management for Profit

Part Two: The Credit–Sales Partnership

by J. L. WOOD
Assistant Treasurer
JOHNS-MANVILLE CORPORATION
New York

One of the Credit Man's most important responsibilities in organizing his efforts toward the profit goal is the establishment of a partnership relation with the Sales Manager and the salesmen based upon mutual faith and confidence.

I am not a devotee of the cult whose dogma demands that salesmen be trained and utilized as credit reporters and collection agents. Except in certain specialized fields, such as some retail activities and the oil and gasoline trades in which the salesman is really a carrier and collector, I have found that the credit-sales partnership is built more solidly with each partner specializing in his own field.

The alert Credit Man can and does secure more and better credit information through his established channels than can be obtained by the salesmen, whose observations, many times, are quite understandably likely to be colored even though subconsciously.

The Credit Man, too, being expert in the field, can better effect the collections than can the salesman, handicapped as he is by his preoccupation with sales and his natural desire to avoid any situation which might tend to affect his sales position.

Specialized Activities

Let's understand this clearly. I do not, by any means, infer that salesmen should be disinterested in credit and collection matters. Decidedly to the contrary, in fact. Nor do I mean that the Credit Man should not encourage the salesmen's credit observations and his interest in keeping his accounts in good credit standing for it is clearly mutually advantageous for him to do so. My point is, however, that, through making no specific or formalized credit or collection requirements of the salesmen, he becomes convinced that these are highly specialized activities, performed by experts and he acquires confidence in the Credit Man's judgment, providing the corner-stone of harmonious cooperation. He accepts the Credit Man's decisions and acts, eliminating the bickering and acrimonious debate which used to mark the credit-sales relationship.

The first step which our Credit Man takes is to know the salesman intimately; to study his personality, psychology and idiosyncrasies, and thus determine the one right approach to secure his confidence. The salesman's territory is then thoroughly analyzed and a knowledge gained of his problems, which are discussed with him, sympathetically, on each opportune occasion.

"Help Me"

The Credit Man informs the salesman whenever he intends to call upon one of his customers so that he may be present if convenient. The oftener the joint calls occur, the sooner the salesman, observing the Credit Man's sales-minded approach, accepts him as a fellow salesman and works with and for him. Quickly the salesman's thinking is transmuted from 'keep that so-and-so out of my territory' to 'can you come down next week and help me with Doakes and McGillicuddy.' Yes, he says 'help me' because he has found that the Credit Man *does* help, with sound advice, to foster a cordial and profitable relationship.

That help ranges over a wide scope. Perhaps the customer has been doing a seemingly satisfactory volume, but profits have not been sufficient for him to make progress nor even to permit him to pay his bills promptly. The Credit Man thereupon sits down to analyze the operating figures, many times finding not only the ailment but the cure.

The case of a dealer in Michigan points this up. The salesman was being handicapped by the customer's inability to keep his account in line, resulting in credit restrictions and a consequent loss of volume. He appealed to his friend, the Credit Man for help. He didn't argue with him or cry on his shoulder because he knew the Credit Man was just as anxious as he to see those orders shipped.

The Credit Man tuned up his analyzer and went to work. The trouble was partly due to slow accounts receivable turnover, and this was obviously caused by laxity and timidity in collection follow-up. But the gross profit was not of top-drawer quality either, so the sales were carefully examined, invoice by invoice, to observe the mark-up method. Some evidence of rank carelessness in pricing was observed, but the sore thumb which stood out was embodied in rather large sales to a single customer.

Competing with Himself

This customer habitually issued tenders calling for bids and friend customer exuded pride in pointing to the fact that apparently his bids

were always successful. They were, too, and no wonder. It appeared that each time Brother Dealer received a tender, he got out his pencil-sharpener, tied himself into physical and mental knots and proceeded to go into competition with himself. Fearful that someone else would get the business, he sharpened and whittled away at the price until he shaved it down to the point where he was sure nobody else would *want* the order. With his overhead running at 21% of sales, he was quoting and getting the award on a mark-up of 6%! It was difficult for him to grasp the simple arithmetic of this demonstration of how to go broke in ten easy lessons.

It required little short of a hammerlock and half-nelson to extract a solemn promise that, on the next inquiry, he would test our theory that his 'cut-throat competition' was largely himself and would quote a mark-up of 27%.

Two weeks later the gleeful salesman wrote: "Mr. Dealer quoted 27% upon an inquiry for $3,000.00 and to his great surprise, got the order. He's convinced now and I think he'll be all right." He was.

Strengthening Good Will

Sometimes it's the strengthening of good-will with an already successful customer in helping him to be more successful.

A jobber, seeking an additional but allied line to augment his sales, was meeting with no success because of shortages. The Credit Man knew that another jobber, several hundred miles away, had a close and profitable connection with a good manufacturer. He arranged for them to meet to exchange information and ideas, with the result that Jobber A got his additional line, Jobber B a store of excellent merchandising ideas, and the Credit Man the blessing of both.

When the salesman secures a new merchandising customer, particularly one establishing a new venture, he calls upon his partner, the Credit Man, for aid in launching the new endeavor upon its proper course. Based upon his continued study and knowledge of the operations of others in the same field, the Credit Man sets up operating budgets to conform to the volume expectancy and arranges for the ledger accounts to provide comparable cost and expense data for continued comparison with the budgets and the exercise of management control. With a little experience in this endeavor, it will be found that the budgets can be set so accurately that the actual operations will be surprisingly close.

This form of the Credit Man's service to the salesman is of considerable importance in the establishment of a new venture for, with the budgeting of sales and expenses, a reasonably valid pro-forma earnings statement can be projected so that the prospective customer can see just where he is going. And no salesman needs to be told how important a factor that can be in his closing.

With the credit-sales partnership closely knit, there is a continuous exchange of information and ideas looking to the building up of the volume in each territory. The Credit Man aids through his observation and knowledge of the financial structure and management capacity of the customers. Sometimes he is able to detect an unfavorable trend and if, despite his efforts and advice, he is unable to correct it, he goes over the situation with his partner and works with him to secure a new account long before the bubble bursts.

With his eye constantly glued upon the profit horizon, the Credit Man can frequently accept the task of adding a new customer whose financial position may be pretty thin, and then with close watching and guidance—and the probable carrying of a past due account for a considerable period—build it into a sound and valuable profit producer.

Unusual Situations

Occasionally the sales-aid can go to rather unusual lengths, even to the extent of wide-eyed acceptance of an order on which payment would inevitably be long delayed. While admittedly an unusual situation, the incident of the mid-continent dealer illustrates the point.

The Credit Man was faced with a substantial order from a new ac-

"Assets, zero; liabilities, $148,576.93--- Oh, but here's good news, Mr. Carter- there's still $1.58 in the petty cash fund!"

count in a territory panting for distribution. The financial sky was at least a rich, dark brown if not totally black. The balance sheet reeked with heavy inventories and still heavier payables with cash virtually nonexistent. Creditors were pressing and the situation clearly called for a creditor's committee or a receivership to prevent dissipation of substantial assets.

If the Credit Man accepted the order, he knew his turn in the collection cycle would not be reached in any reasonable period and there was a strong possibility that a receivership would freeze it indefinitely. Yet it was the very probability of a receivership action which determined his approval. In fact, he could not otherwise have accepted his order. He reasoned this way: If the order were approved and a receiver did not intervene, he would have a continuing and mounting problem of what to do with future orders and it was possible and even probable that he would become heavily involved to the extent of assuming the position of angel in paying off one or more importunate creditors with the proceeds of his material. At the same time, no distribution aim would be served in a one-time sale. On the other hand, a receivership, while freezing the initial credit, would afford ample protection for subsequent credit and establish a much-needed outlet.

The receiver took over within thirty days. The management, continuing under the receiver's control, was grateful for the credit extended in time of need and the products of the Credit Man's company were earnestly promoted. Over the course of the following five years, purchases — all dis-

(*Continued on Page 20*)

Setting Credit Limits

Part One: A General Discussion of the Problem

by A. P. BRIGHAM
Credit Manager
PET MILK SALES COMPANY
St. Louis

Time was when there was little in common between the sales department of a company and its credit department.

Those were the days when a salesman was called a 'drummer' or an 'agent.' He was known for his fund of stories and for his alleged affair with the farmer's daughter. Usually he was a high-pressure operator who measured his skill by his ability to load the trade with so much of his merchandise that his competitor didn't have a chance. How his customers disposed of the merchandise they bought from him and how they paid for it were things about which he was not very much concerned. He felt that once he got the customer's name on the dotted line his responsibility ended.

On the other hand, the old-fashioned credit manager, in his role as 'watch-dog of the purse strings,' was the opposite type of person. By reputation, at least, he was a cold, unapproachable individual completely lacking a sense of humor. He was a man of few words who, if he said anything at all, was likely to say, 'No.'

The salesman, in his way, was bent on building the company's business. The credit manager seemed determined to tear it down —or at least hold it back. Consequently the two just didn't get along. They were more like antagonists than partners with a mutual interest and a common goal.

Different Today

Today that kind of situation does not exist in a successful organization. We realize that the sales department and credit department have *everything in common,* that the work of each is a part of marketing and that if we are to do a successful job of it we must work together instead of pulling in opposite directions.

There are a number of reasons for this new feeling between the two departments. There is a better understanding, by both the sales and credit departments, of general management's viewpoint and of each other's purposes, responsibilities and problems. The sales department has grown credit conscious and the credit department has become sales conscious. The salesman has learned some of the fundamentals of credit. He has been trained to help the credit department to obtain pertinent and often valuable credit information, and to use his knowledge and skill as a salesman to assist in the collection of troublesome accounts. The credit manager, on the other hand, has learned salesmanship and how to apply it in his customer relationships so that he builds good will as he goes along, keeping his accounts in good order and his credits under control not by restrictive or bludgeoning methods but by the application of sound, constructive reasoning and persuasion.

And along with the development of mutual co-operation and the co-ordination of sales and credit knowledge, skill and effort, there have followed naturally the development and improvement of mechanisms, by both departments whereby the job of both has been made more effective.

That this subject is of continuing interest is shown by the fact that it comes up for discussion at every conference and convention. Here are two entirely contrasting treatments of the subject.

How Limits Are Set

Let me discuss briefly how credit limits are set.

In setting credit limits, all companies obviously do not follow exactly the same system. Just how a company sets its credit limits depends on the nature of the company's product and operations. In general, however, the systems are, broadly speaking, pretty much alike. At least, they are based on the same principles and they aim at the same goal.

In the first place, the salesman submits a report on every new customer, or on every customer who has not been sold for a year or longer. This report contains important information for both the sales and the credit departments. It describes briefly the customer's method of operation, the products he sells and his standing in the trade. It lists the customer's bank and trade references. And most important of all, it gives the salesman's estimate of how much of the salesman's product the customer will buy and the amount of credit required under the supplier's terms of sale.

Usually, the sales department approves the new customer from a sales viewpoint and the credit department, after the quickest possible investigation commensurate with thoroughness and accuracy, approves selling the customer from a credit viewpoint, sets up credit instructions, and notifies the salesman, through his sales office, of the

credit limit, on the account; or if credit cannot be extended, issues C.O.D. or SD/BL instructions. The salesman then has the green light to go ahead and sell up to the limit at all times, so long as the customer maintains his credit standing and meets his obligations promptly and in accordance with the sales contract.

Must Keep Files Current

Under this system, the credit department must keep its confidential credit files up to date and complete at all times. If Credit Interchange reports and financial statements show the customer is slipping, his limit may be reduced or withdrawn. If, on the other hand, the customer is shown to be progressing, his limit may be increased to permit larger sales, in line with the growth of his volume and financial responsibility.

That, in general, is the 'How' of 'Setting Credit Limits.' Now, let me briefly discuss the 'Why.'

I will not go into lengthy detail on this latter section of our topic. I want simply to give you some of the reasons why credit limits should be set.

Nine Advantages

Here they are, as I have found them—and they are presented for your consideration not necessarily in the order of their relative importance:

1. Credit limits provide efficient credit control and at the same time permit maximum sound credit sales.
2. Setting credit limits before orders are taken permits intelligent consideration and comprehensive analysis of facts by both the sales and credit departments. The sales department can plan its sales efforts more effectively when it knows the limits under which it must work. The credit department can have time and the benefit of merchandising as well as credit information on which to base sound credit extension.
3. Credit limits, set in advance, prevent wasted selling effort and expense. Orders far in excess of the customer's credit rating are not submitted only to be rejected by the credit department.
4. Neither customers nor salesmen are irritated by the rejection of orders requiring more credit than the customers deserve.
5. Confusion in handling orders and customer relationships is largely eliminated.
6. The handling of orders is greatly expedited.
7. The over-all efficiency and smoothness of both sales and credit operations are greatly increased.
8. The relationship between the sales and credit departments is constantly maintained on a basis of mutual understanding and cooperation which can only result in effective selling effort and sound credit control.
9. The expense of maintaining a credit limit setting system is offset many times over by the greater efficiency and the elimination of lost or misdirected sales effort and expense.

Some Specific Formulae Which May Solve It

by HARALD H. RASMUSSEN
Credit Manager
THE EMERSON DRUG COMPANY
Baltimore

One of the most important problems of credit control which confronts a credit executive is, oddly enough, one which has received scant attention in business schools; in textbooks; in financial magazines, or in group discussions of credit practice. I am referring to the task of setting credit limits which are equitable to debtor and creditor alike.

After the credit executive has decided that a customer, or a prospective customer, is an acceptable credit risk he is confronted with the inevitable question — how much? Although the determination of a credit limit must be preceded by the usual investigation of the prospective debtor's character, capital, capacity, etc., the two tasks are separate and require a different approach.

Perhaps the general avoidance of this subject is due to the fact that even among credit men who recognize the importance of credit limits there has been little agreement as to methods and the proper use of credit limits. Discuss the subject with a dozen credit executives and you will probably find from eight to twelve different methods of setting limits. That is not as strange as it may seem. A method that is entirely adequate for one supplier may be quite unsuitable for another. Elaborate methods which may be justified in a concern having few but very large accounts may be much too cumbersome for one which supplies thousands of small accounts. But, while methods may differ widely, and justifiably so, we shall probably find considerable uniformity in the fundamental principles underlying most of the methods which deserve our consideration.

Why Credit Limits Are Set

An equitable credit limit will benefit both buyer and seller; it will in the long run save money as well as time. It reduces credit losses for the supplier by discouraging over-buying and over-expansion. As we all know, a substantial part of credit losses is due to over-extension of credit. It protects the buyer against his own imprudence. If over-expansion should lead him into bankruptcy the debtor will probably lose more than any one creditor. Let's not forget that the responsibility for protecting the buyer against the evils of over-buying rests upon the principal suppliers, perhaps only the

fifteen or twenty largest creditors. In some cases the number is even smaller.

Save Time

The proper use of carefully considered credit limits will save much time in the credit department. The credit limit should represent the sum total of all our information and experience with the account. If it is conveniently and clearly noted, such as on visible card index, it eliminates the necessity for frequent reference to ledgers and credit files.

Credit department policy will determine just how credit limits are to be used. I like to use them as an important step in automatic credit control. I look at a system of credit limits as a screen or a series of screens through which all orders must pass. Credit clerks or assistants may pass on all orders which come within the established limits. But the screen holds back orders in excess of the limit. These are then given to the credit manager for further investigation and final decision. Being relieved of most routine approvals he can devote more time to the more difficult credit decisions and other important matters in the credit department.

I should like to emphasize that a system of correctly determined credit limits serves as an accelerator as well as a brake. It enables us to extend ALL the credit to which the customer is entitled. And if it be deemed advisable to discuss the limit with the buyer it should be possible to convince him that the amount is just and proper.

Objections

It may be objected that it takes too much time and effort to set up and keep up a system of credit limits. It does take a lot of time but that is offset far more by the saving of time after the system has been put in operation.

It is sometimes feared that too many orders may be turned down because they exceed the limit. The fact that they do not pass through the first screen merely means that the credit manager must give those orders personal attention and decide whether to accept, reject, or reduce the orders to a reasonable limit, or arrange for special terms.

The need for constant revision of limits is often over-emphasized. Limits are not intended to be so accurate that they must reflect the most minute changes in the customers' financial condition. Revisions may often be made in connection with changes in sales plans on a national basis or in certain trading areas. They may be coordinated with the company's seasonal promotion plans.

If orders which exceed our credit limits are usually approved, why have limits at all? The limits serve as guides or danger signals and serve the several purposes already mentioned.

How Credit Limits Are Set

We now come to the heart of our discussion, namely—how to arrive at the credit limit which is just right from the standpoint of buyer and seller alike.

I believe we can agree that two basic principles govern the sound determination of credit limits. The buyer should neither use his credit to obtain more merchandise than he can pay for nor buy more than he actually needs. Thus the problem of setting credit limits usually calls for a choice of three approaches, namely:

a.—The financial approach — based on ability to pay. Let's use the term "debt paying power".

b.—The sales approach—based on estimated requirements. The requirements should be determined by some reliable method. The limit should not be based on what the customer says he requires. In general, if an account is worth having, it should be given an adequate line of credit. An inadequate limit may encourage the customer to buy more heavily from one of our competitors.

c.—A combination of a. and b. Under this approach, if a customer's requirements are greater than his debt paying power, then the limit should be based on ability to pay. If debt paying power is greater than his actual requirements the limit should be based on requirements.

Let's keep these basic principles in mind when we consider the adequacy or inadequacy of each of the methods which we are now ready to discuss.

Several Methods Used

i Sometimes limits are based on Dun & Bradstreet ratings or the ratings of some other commercial agency. To use this method is to rely on the judgment of the agency workers.

ii 20% of the capital rating assigned by Dun & Bradstreet has been used by a few concerns as the absolute limit. I doubt that many credit executives would give serious consideration to this method.

iii Limits may be used on schedules worked out by leading credit insurance companies. This method is used mostly by concerns carrying credit insurance.

iv The average amounts of credit extended by other suppliers, as revealed by Credit Interchange reports, is sometimes used as a credit limit. It may be noted that Interchange reports do not reveal the amount of credit other suppliers are willing to extend, but only the amount of credit actually extended. If we use this method we really depend on the judgment of the credit managers of other suppliers without being acquainted with the facts underlying that judgment.

v Then, there is the trial and error method—the error being revealed when a credit loss occurs. Under this method a small arbitrary limit is assigned to a new account. The limit is then increased or decreased, based on actual paying experience. Whatever merit this method may have on a large number of small accounts it should be ruled out whenever an important amount of credit is involved.

vi 10% of net current assets is sometimes used as the basis for credit limits. Some other percentage may be used. In some lines of business this method has considerable merit and has been used successfully, since net current assets

(Continued on Page 39)

Notes on Terms of Sale

A New Slant on Discounts and Chiselers

by CARL B. EVERBERG
Attorney-at-Law
Boston

Credit men and others who are engaged in commerce are wont to apply the expression "terms of sale" to only one of the several terms which might exist in sales transaction. A "term" in a contract is synonymous with a condition in the contract. There are usually conditions pertaining to the kind of goods, the time of delivery, the carrier to transport the goods, and of course the time of payment. The time of payment is only one of the conditions; yet because, somehow, men in commercial circles in the past came to identify "terms of sale" with terms of payment, we have all come to assign that meaning to the expression. To be more precise we ought to start calling the terms which deal with the time and method of payment "terms of payment" instead of "terms of sale".

Nevertheless, in the treatment given the subject herein we will continue to use the expression in its more popular sense, namely "terms of sale" meaning "terms of payment".

Variance in Payment Terms

There is a wide variance in the case of a given seller, at times, in the various "terms of sales". They may range from a requirement of cash to permitting a customer considerable time within which to pay for the goods after he has received them. From a practical standpoint there is a direct relation between the terms of sale and the seller's notion of the buyer's paying ability. If the seller has little or no confidence in the buyer's paying ability he may require a cash term. On the other hand the period for payment is willingly lengthened when there is no apprehension about the ability of the customer to pay.

There are several types of "cash" terms. A seller may require cash with the order. Cash in such event may consist of the customer's check which is permitted to clear, or a certified check or a cashier's check. The symbol for such transaction is C. B. D.—"cash before delivery". No delivery is required of the seller until the buyer has first made the payment in cash.

The most common "cash" transaction is the one known by the symbol C. O. D.—"cash on delivery". In this sort of transaction the delivery of the goods and the payment therefor are concurrent conditions. The seller makes delivery (generally by agent) simultaneously with the buyer making payment. If there is no payment, no delivery need be made; if there is no delivery, no payment need be made.

Another form of cash transaction is the sight draft attached to bill of lading, (symbol, S. D.-B. L.). The seller usually issues an order bill of lading, to his own order, endorses and forwards it attached to a sight draft to a bank in the buyer's city. The buyer pays the draft, obtains the bill of lading; with the bill of lading he obtains the goods and the bank transmits the funds to the seller. This form of transaction is frequently employed conventionally by some industries without respect to the customer's paying ability.

When Does Title Pass?

One of the legal questions involved in so-called "cash" sales, and the question usually not taken into account nothwithstanding its extreme importance, is the time of passing of title. It is generally the intention, looking merely to the requirement of the seller to have his money before delivering possession, that title is not to pass until the cash is paid. But it often happens that the seller uses a printed form of contract which militates against that planned result.

The contract may provide, for example, that title is to pass upon delivery to the carrier. If such be the case in a given transaction, with the terms C. O .D., the goods actually belong to the buyer and the C. O. D. provision is merely the exercise of the right of lien [1] on the goods till they are paid for. Thus if the lien is waived in any manner, as by letting the buyer take in the goods tentatively, the seller has lost both title and lien. Sellers should therefore review their methods of handling "cash" sales, especially with regard to any provisions which may be in conflict with the intention of not passing title till the cash is paid.

Two Legal Situations

It is in this respect that sellers should also look over their sales

[1] Sec. 53 (1.) (a) of the Uniform Sales Act. "Subject to the provisions of this act, notwithstanding that the property in the goods may have passed to the buyer, the unpaid seller, as such, has a lien on the goods or right to retain them for the price while he is in possession of them."

Sec. 54 (1.) (a) (b) (c). "Subject to the provisions of this act, the unpaid seller of goods who is in possession of them is entitled to retain possession of them until payment or tender of the price in the following cases, namely: where the goods have been sold without any stipulation as to credit [as for example, cash]; where the goods have been sold on credit, but the term of credit has expired; where the buyer becomes insolvent."

transactions where the terms are stated to be *"terms cash."* There are two possible legal situations involved in such an expression. It may mean, for example, that title is to pass, but that the seller gives notice that he is not waiving his lien (at least as long as it is possible to hold the lien under rules of law). It may on the other hand, mean that the title is to remain in the seller until the price is paid.

The consequences are entirely different in the two situations. In the latter case (title not to pass till price is paid) all the risks of ownership remain with the seller. He has the risk of loss, destruction, etc.; he cannot sue for the price, but can only take steps for repossession. In the former situation, the risk is on the buyer, and while the seller cannot repossess once the lien has been waived, he can sue for the price. Whether the seller prefers the one form of transaction over the other is a matter for his own judgment, but he must make certain that the intention be expressed clearly in the bargain, whichever the choice may be. The expression "cash terms" can be a very loose one in absence of definite stipulations in the contract.

Short Credit Terms

Undoubtedly much that passes for "cash terms" or sales purportedly on a cash basis does not measure up to the elements of actual cash terms. Sellers who state their terms to be "cash" often contemplate a short period of credit. Custom and usage develop frequently to the end that the cash payment is waived. The word "cash" becomes in such instances, meaningless; if not meaningless it acquires, paradoxically, the meaning of *credit* (of all things!) though for a brief period. Suppose the terms are stated: "Settlement in 10 days by cash." Would any one deny that this was a credit transaction? But would it make much difference though the terms were stated unequivocally to be "cash" and the seller acquiesced in looking for payment for 10 days? It should be clear that where a credit transaction is actually intended, though described as "cash", or where the cash payment is waived by usage, that title passes to the buyer and the seller does not have the right of lien or the right of repossession once delivery is made, on any theory. However, the seller may, if he stipulates it clearly enough, reserve title until payment is made. But in such case the transaction would still not be technically a cash transaction.

The commonest form of "terms of sale" (or payment) in commerce is the delivery of both possession and title to goods to the buyer upon the express or implied agreement of the latter to pay within a certain specified period. Thus, "terms, 30 days" means technically that the buyer's performance under the contract (making payment of the price) is not due until 30 days after invoice date. The seller, under such terms, relinquishes all right of lien (except the right of stopping in transit upon learning of the buyer's insolvency); furthermore the seller has no right of repossession but must resort to legal action for the price if the buyer fails to pay.

Offer of a Discount for "Cash"

Many sellers, using such terms, dangle a bait before the buyer to induce payment in a shorter period. The buyer is offered a "cash discount". For example, the terms may be stated: "2% 10 days—net 30 days." If the buyer pays within ten days he may deduct 2% from the amount of the invoice. Using an illustration, let us say that the buyer receives an invoice for $1000, dated June 10, terms 2% 10 days—net 30 days. If he pays by June 20th he needs to send only $980 and that amount pays the invoice in full. This is also known as "privilege" to buyers; sometimes it is known as a "cash premium". By whatever name it may be called it is difficult to make a satisfactory analysis as to just what the nature of the creature is. If we calculate the benefit or the disadvantage (according to whether the buyer takes the discount or not) in terms of interest, the rate is, to say the least, enormous. For example, if the buyer does not take the discount, he pays $20 for the use of the $980 for 20 days. And this, we understand, is equal to about 37% per year.

There is a question as to whether there is some relation between these "cash discounts" and the Robinson-Patman Act (designed to prevent unfair price discrimination). But this question will be dealt with after mentioning other types of "terms of sale," first.

Varieties of Cash Discounts

Some sellers use terms known as E. O. M. (end of the month). This does not mean that payment is due at the end of the month in which the purchases are made; on the contrary the buyer can wait until the end of the month during which the purchases are made before the credit terms (or the discount terms) become effective. E. O. M. terms are thus simply longer than the ordinary stated period terms (such as 30 days) because the reckoning of the 30 days is suspended until the first day of the month following. As example: add to the usual terms, "2% 10 days—net 30 days" the letters "E. O. M."—the effect is that the buyer has *all* of the month following the month of the purchases to pay, and he has till the 10th of that following month to take the cash discount.

A modified form of these E. O. M. terms is the M. O. M. (middle of month) terms. Here all sales made between the 1st and the 15th of a month are considered dated as of the 15th of the month (instead of the first of the following month as in the case of E. O. M.). All sales made between the 15th and the end of the month are dated as of the 1st of the following month. There are therefore two dates in each month from which the conventional credit period runs and from which the discount period is reckoned when cash discounts are offered. In 30 day M. O. M. terms therefore, the credit terms are longer than the usual 30 day terms but shorter than in the case of E. O. M. terms.

The E. O. M. and M. O. M. terms are undoubtedly expedient where in certain lines of trade purchases are frequent and in small amounts during a month's time.

"Prox" and "Ult" Terms

"Prox" or *proximo* terms resemble the E. O. M. terms. A cer-

tain specified day on the month following the month of the sales is set as the date for discount. But when these terms are used the net day is generally stated too. Example: where the terms are "2% 10th prox." there is usually added, "net 30th". Thus where an invoice is dated June 19th, the buyer may take the discount if he makes payment on July 10th. The net amount of the invoice is payable on the 30th of July. "Proximo" is the Latin word for "next". "Prox" is the abbreviation. Where there is a "prox" discount date and a customer pays in *advance* of that discount date he is, under some contracts, allowed a previous or *ultimo* ("ult") discount *in addition* to the regular discount.

Sellers and buyers sometimes make use of longer credit terms than the foregoing. In certain lines (dry goods, ready to wear) sellers grant "long" or "season" datings. These extraordinary credit periods run from 60 days to several months. There are certain benefits to a buyer in being able to obtain the goods at a known price and take possession of them months before they are due for payment. The disadvantage of having to store the goods during the long period when they are not marketable may be overcome in some cases by permitting the seller to hold them for shipping instructions.

Sellers in the case of long datings encourage buyers to pay sooner by offering extra discount advantages. It is common in these cases to see terms stated: "3% 10 days—2% 10 days—60 days extra." Thus the buyer may take 3% discount if he pays within 10 days, or 2% if he pays in 70 days. Furthermore the buyer is generally allowed a certain rate of discount if he pays between the 10th day and the 70th, in addition to the 2%, according to a scale based on the number of days by which the discount is anticipated. While it has been asserted by some writers that the 2% is actually a trade discount and not a cash discount, manufacturers have contended that the carrying of an account for the extra period is a cost.

"R. O. G." and "A. O. G."

In cataloguing all the various credit terms we include another lesser-known one in connection with cash discounts. This is known as "R. O. G." (sometimes "A. O. G.")—meaning "Receipt of Goods" and "Arrival of Goods" respectively. Thus the discount period is calculated not from the date of the invoice but from the time the goods are received or have arrived at the customer's location. For example: "2% 10 days R. O. G.—net 30 days." In cases where goods are shipped to a buyer so far distant from the seller's location that normally they would not reach the buyer before the discount period had expired, this overcomes the disadvantage which would otherwise be imposed on the buyer of having to make the payment (to save the discount) before seeing the merchandise. It becomes also a competitive measure where producers or sellers of the same type of goods are located in the same market community as the buyer.

The question has frequently been raised of late as to whether the granting of cash discounts was in violation of the Robinson-Patman Act. Now that the U. S. Supreme Court has backed up the Federal Trade Commission in the *Morton Salt* case[2] and held that quantity discounts even though offered to all customers equally, can be discriminatory on the ground that small businesses are unable to buy in the quantities affording the discounts, the question is somewhat more acute.

No FTC Ruling on Discounts

Apparently the issue has not been adjudicated in reported cases on the bare question as to whether cash discounts are in any way in violation of the Robinson-Patman Act. This Act makes it unlawful in interstate commerce to discriminate in price between different purchasers of commodities of like grade and quality. . . . There are some cases decided by the Federal Trade Commission in which cash discounts were held unlawful but only because they were offered to certain purchasers and not to others.[3]

Are we justified in concluding from the absence of cases (except for the category mentioned above) that there is nothing unlawful about granting cash discounts on general principle? An illuminating paragraph under the hand of John T. Haslett, Formerly Principal Trial Attorney, Federal Trade Commission, in a recent article[4] is submitted on the question. This paragraph said: "Reflecting, in part, the above principle, there has been little question under the act about the validity of cash discounts. These discounts are granted for payment within a designated time, and are customarily offered to all purchasers alike."

Sellers who offer cash discounts ought to review their discount practices and determine whether their discounts are offered to all customers on an equal basis. It certainly is conceivable that cash discounts could be offered under such name and functionally operate as quantity discounts. Finally, it would seem that though sellers might offer cash discounts alike to all customers and on the same basis, they might permit the cash discounts even after the discount period has elapsed. The practice of "chiseling on the cash discount" is far from unknown in credit circles. As to those customers who lacked the temerity to take a discount after the discount period had gone by, it might, without stretching the imagination too far, size up as a discrimination—a discrimination in favor of those who "chisel". Sellers ought therefore to be more severe than ever in this respect.

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[2] See "Quantity Discounts Hazardous" by W. Randolph Montgomery, Counsel, National Association of Credit Men, in Credit & Financial Management, June 1948.

[3] Republic Yeast Corp. 33 F. T. C. 701; National Grain Yeast Corp. 33 F. T. C. 684; Federal Yeast Corp. 33 F. T. C. 1372.

[4] Feb., 1948, issue, *Michigan Law Review*—Law School, University of Michigan, Ann Arbor, Mich.

It Can Happen Again

How Vesty Was Hooked by Crook

by HELEN M. SOMMERS
Credit Manager
TROJAN HOSIERY MILLS
Indianapolis

AUTHOR'S NOTE: All persons and places mentioned in this article are purely fictitious. Any resemblance to people or firms is purely coincidental.

"Uncle Vesty," said Alice one morning, pointing to the ledger of charged-off accounts, "you call *The Mausoleum* a monument to errors in business judgment. And you have been telling me tales about bankruptcies that resulted from bad management. But we have had losses through downright fraud, too, haven't we?"

"Oh, yes," answered Vesty Gates. "The percentage of crooked debtors to honest ones is small. But yes, we have been hooked by some of them; and then again we have smelled something phoney about their bait and have refused even to nibble."

"Have you time to tell me about the bait?"

Vesty put on his most serious I'm-a-busy-man look, but Alice caught in his eye a glint of the pleasure such an invitation to teaching brought him. "Very well," he said soberly. "While I am finishing this report, get the 'Rogue's Gallery,' so that I can refresh my memory on some particular case histories."

"Rogue's Gallery" was a card file which had excited Alice's interest ever since she first heard of it some weeks before. It had been retired to the inactive files during the war when new accounts were not being accepted, but recently he had asked that it be transferred "within reach". New accounts were beginning to come up now, he said, and it was always well to have these boys in mind, just in case. So occasionally he would mull through them, saying never an articulate word, though occasional grunts and chuckles indicated to Alice that old doors were being opened through which she had not yet been permitted to look.

" These names," Vesty explained, when Alice set the file on his desk, "have been compiled from source-records wherever we found them: our own bankruptcy files where the evidence pointed to fraud; accounts we turned down that later failed under cloudy circumstances; skips and fly-by-nights of our own experience and of our colleagues'; trade-paper listings of arson and fraud convictions and of examinations in bankruptcy—anything that pointed to shenanigans.

"You see," he went on, "we keep many records of companies, but few of individuals connected with them. When a company fails under suspicious circumstances, we are apt to associate the failure with the name of the company, and let the individuals drop into obscurity, forgetting that they are living, breathing persons who may dash right out and do a repeat job at their first opportunity. This card file is a list of people and their aliases, not corporation names and trade styles. It's a list of Jack Flimflam and all of his fellows we ever heard of. You never can tell when one of them may bob up using lures with different colored feathers, maybe, but the same hooks."

He thumbed the cards and Alice drew her chair alongside to watch the names as he began to throw out tidbits of incident.

"This fellow's game was to order C. O. D. shipments from distant suppliers who were suckers enough to ship without a deposit. The shipment arrives, Mr. Cod Artist wires the supplier to authorize release because he is temporarily short of funds, but has an immediate market for the goods. Those suppliers who fell—fell! Those who refused were stuck with two-way transportation. We were warned, and therefore regretfully declined two touching invitations.

"And here's a beautiful example of brotherly love—the Larson boys. Pete ran a small leased department in his brother Grant's apparel store. Pete had no credit standing. Grant did. So Grant, like a good brother, authorized the salesman to charge him for shipments to Pete. But he didn't bother to sign the order. After several months little Pete disappeared overnight, leaving his shelves as bare as Mother Hubbard's. Grant hadn't the faintest idea where he could be found—Petie was always such a wayward boy, and his mother was so worried! When confronted with Petie's bills, Grant was astonished. How could Petie have made such arrangements without his knowledge? He of course had never once authorized such a thing, and if statements and letters and wires had come to the store, it simply meant that Petie had intercepted them."

"That's a pretty detailed story, Mr. Gates," Alice remarked with wicked casualness. "Could it be you that got caught on such a bare hook as that?"

"It could," Vesty admitted sheepishly. "This salesman of ours was a pretty dependable fellow Occasionally he had sent in orders from established customers without their formal signature—old timers, and

of course no harm resulted. Both of our faces were slightly flushed when we realized that we had let that one slip through. I remember the day we went up there to confront that bird. Never put in a harder four hours' work in my life, pressuring, arguing, threatening, cajoling. Finally by sheer force of words I dragged two-thirds of the $600 account out of Grant for the sake of 'family honor', and considered myself lucky. With him we hadn't a legal leg to stand on—no signed order, and shipments consigned to Pete. And to skip-trace Pete would have had very doubtful results."

"Same old moral—take nothing for granted?" Alice asked.

"More specifically, be sure an order is signed by the person to whom a shipment is to be charged; especially on those ship-A-charge-B deals. It's as simple as that." Apparently Vesty still felt some of the old chagrin.

He continued a running undercurrent of commentary as if to himself as he hunted through the cards for just the right cases to illustrate fundamental points.

"A. Little—sample chisler on a nation-wide scale. Imagine!

"Jack Bonanza—bust-buyer."

"What's that?" Alice interrupted.

"Established a discount record over a period of months on purchases of about $2500, then went on a buying blitz placing multiple orders simultaneously in many new markets. Took creditors for nearly $50,000 before they had time to say their first 'please remit.'

"Jackie Lusive — playing hide-and-seek with the department of justice, it says here. His figures did lie, and he put them in the mails.

"Iva Fentz, wholesaler. Sold her goods to a dummy corporation that was nevertheless smart enough to go out of business mysteriously, leaving poor Iva powerless to pay her own creditors, she said. Poor Iva!"

"Poor creditors!" Alice corrected him.

"Alex Droit. Must have been contemplating bankruptcy when he tried to arrange for credit with us. Some of his creditors were almost as smooth as he was. Two of them who were in deeply recommended his account to us highly about the same time they stopped shipping him. A Credit Interchange report saved us from that mistake.

"Here's a lady who abandoned her store and her debts—further whereabouts never learned. Lo and behold, up pops a hitherto concealed lien on all the assets—quite by coincidence held by a friend of hers who proceeds to satisfy her claim via the auction block. It appears that a few creditors peeped feebly, but claims were large in number and small in amount, so nobody put up a real fight.

"Jerry Underdeal—tried to get by with transferring some of his assets before making an assignment. Creditors exposed that deal to the fresh air of the bankruptcy court.

"This fellow had a robbery a month before bankruptcy, but he didn't bother to report it to the. police."

"Nor to his creditors," Alice guessed. "Mr. Gates, what are our safeguards against these people?"

"Alertness, for the most part. Examine antecedent information carefully. Compare financial statements with paying habits. Contact new accounts personally, when possible. And let each salesman know he has a certain responsibility to keep his eyes open. We will talk about recognizing certain types of dirty deals in a few minutes."

Vesty continued his travels in Roguedom. "Here's a case where we should have set a watch-dog to watch the watch-dog. A collection agency collected our money and that of other clients, but kited the funds to cover their own operating losses. Moral: *Check your collection agency's responsibility more carefully than you checked the account you intend to place with them.*"

Suddenly V. G. slapped his hand to the desk emphatically as the next name came up. Alice jumped a little and laughed. "I see you have discovered a long lost enemy."

"Now you must really see this file. Or these files, I should say. Those people had the audacity to try the same trick on us twice, with practically no variation. Twice, mind you!"

"An insult to your intelligence, I should say," Alice said solemnly.

"Mr. Burke, I wish you'd stop using words that will cause you to complain about my spelling!"

Then, slyly, "Did you bite?"

Vesty patted the cards affectionately. "If these little records hadn't served any other purpose, they earned their board and keep in this case. Look," he said briskly, "get the files on Brownings of Edgerton, and Leon's Ready-to-Wear of Metropolis, and I'll show you some tangible specimens of brass. Oh, and while you are back there, you may as well pull two or three others." He referred to the file, jotted some names on scratch paper, and handed them to her.

When Alice returned, he was sitting quietly back, thumbs in vest, chin on chest, lost in thought. Then he giggled gleefully. "I remember how Power got all steamed up about the way I handled this Leon order." He opened the file.

"Power?"

"Yes, he was the sales manager we had in those days. A good one, too, with a well-balanced line-up of the personal requisites for the job. And a real fellow, too. But in those days selling was tough going, and a little fur would fly now and then when his anxiety to ship got crossed up with my anxiety to be right about the credit first.

"Well, that morning he came into my office with a handful of orders. 'Meager picking this morning,' he remarked, 'but here's one new one I want to rush right through. These people came into our New York office and placed this order. Said they were rated D 1½. You ought to be able to pass $500 on a rating like that without rigamarole.'

"He singled out an order which Houseman in the New York office had written up on one of our own blanks. It was made out to Leon's, 53 North Bee Street, Metropolis. At the bottom it was signed Leon

(*Continued on Page 37*)

Keeping Outlets Open

Constructive Credit Department Aids Customers

by W. R. LENGA
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Cleveland, Ohio

All of us are familiar with the basic principles of good business as well as credit and its functions. You gather in meetings, read, study to keep abreast of changes and to freshen up constantly on the practical application of business practices. Developments in business, however, demonstrate clearly that business principles are frequently violated and that the path of industrial progress is booby-trapped with many unforeseen obstacles on the road of successful business operation. Production, distribution, and associated activities require the full cooperation of all business men.

What can be a healthier approach to the consideration of our subject than that demonstrated by credit executives who advocate and do work together for the common good? Is it enough, however, that we cooperate to help one another in the credit fraternity? Do greater opportunities lie ahead of us by carrying forward the practical benefits of our cooperation to make it possible for our customers to push forward to greater achievements? To what extent must we share in the responsibility of keeping customers prosperous? Is it clear to us that business is striving for more efficiency in manufacturing and selling, and in all the routines required to get the merchandise to the customer? Is it also clear that business is giving attention to the need of methods and practices to maintain volume as well as to satisfy the trade? At this point we might well ask ourselves two questions: (1) What is essential to be able to assist customers? (2) In what ways may assistance be extended to customers?

Before we give consideration to these questions, we perhaps should concede that in general it is recognized there has been profitable progress in industry and in its field of distribution. Old line manufacturers and new concerns, nevertheless, have prepared or have taken steps to meet real or expected changes in competition. Many manufacturers expect to introduce new products. One of the mottoes of the Connecticut Development Commission is "Where industry *has succeeded* . . . industry *can succeed*". But it might be well for us to ask, "Can industry succeed if customers who sell and use the products of industry are unable to keep pace and maintain their enterprises on a progressive and successful plane?"

What Is Essential?

Suppose we center our attention and give some thought now to the first question: "What is essential to be able to assist customers?" For the purpose of discussion, let us divide this into two categories: (1) credit department personnel; and (2) facilities for operations.

A fact of significance in this respect is that there probably has never been a time since the early days of the Credit Association when such a large percentage of the membership and so many men and women were new in credit work. Under the circumstances we might well ask, "To what extent have we oriented our thinking and planning to be ready for the credit situation confronting us now and in the future? Has an analysis been made of departmental personnel? Should selection of new personnel be required, has thought been given to the type of individual that would best express the ideals, principles and policies of the company? What degree of technical skill is necessary to meet the requirements of the position? Has some definite training program been instituted on behalf of new men or to help older men brush up on new techniques?"

Much has been written about developing the credit man. You are no doubt aware that many banks and business houses have put forth concerted efforts to train and reorganize their credit staffs. Some have formalized their programs and prepared outlines in pamphlet form. Others have been more elaborate in their efforts by preparing a full book of procedures. A good portion of this information is confidential, inasmuch as it pertains to the practice in an individual institution. In any event, we recognize that the competent credit man is not developed on short order. The more comprehensive his preparation and the broader his education, the more intelligent will be his understanding of the problems of his own organization and of his customers.

Scope of Credit Department

In addition to a competent staff, the credit department to be effective must have the right tools to do the job—facilities for operations. In this respect organizations have varying concepts of the functions to be performed by the credit department. It is essential, therefore, for the credit executive to understand the degree, scope, and magnitude of the department's responsi-

bility. In addition, he should be clearly aware that the facts developed and the records maintained serve the purpose for which they are intended. This may embrace a wide area, namely not only to avoid losses and unwarranted risks, but to enhance profitable sales opportunities and development of customers' good will as well as cordial relations.

Exhaustive treatment has been accorded the many phases of the subject concerning practices and systems advantageously used to discharge the functions of the credit department. A great deal of the information is available in numerous books and various types of publications. The one most familiar to us is the monthly magazine, CREDIT AND FINANCIAL MANAGEMENT. Many articles have appeared in it covering credit office systems. Some of the recent ones are: "Training Credit Personnel"; "Streamlining Credit Work"; "Simplifying Credit Procedures"; "Aids to Statement Analysis"; "Need for Merchandising Credits"; et cetera. Although you are keenly interested, it is my feeling that for the purpose of our discussion, it is hardly necessary to describe or compare specific systems or facilities.

Basic Factors

In this connection, however, you may be interested in what are some of the basic factors that could be checked or reviewed to advantage with respect to the proper utilization of adequate records and controls:

1. The defined or planned credit policy—has it been reduced to writing?
2. The organization chart and position descriptions, enumerating the duties or responsibilities of the incumbents.
3. Procedures with respect to office routine.
4. Office equipment and space.
5. Outline guides for the analysis of credit risks and for reports covering personal contacts.
6. Work simplification.
7. Intra-company exchange of views with other management activities — participation in sales meetings, departmental or staff meetings.
8. Extent of personal contacts with banks, the trade, and field visits to customers' plants.

Without going into further detail, you, of course, realize that no business can move forward surely and safely without current knowledge of the play and interplay of forces which lie at the heart of its profit structure. It must furnish proposed plans and a program which relates all company activities to each other and which are intended as guides for future action. It must provide accounts, facts and measures of performance; it must measure resources and manage funds; and finally it must check results so that the course of planned action may be steered to progress. This is just as important to the small businessman as to the large corporation.

Information of this character is revealed to a remarkable degree to the credit executive who studies the progress of his customers through the financial reports submitted at regular intervals. The proper interpretation of customer balance sheets and profit and loss statements through the medium of comparisons with increased attention to trends and ratios, gives a good history of the business and a measure of the efficiency of its management. As stated before, just to what extent these revealing observations are used to cultivate good will and keep customers prosperous is an indication of the effectiveness of the credit department.

From an analysis of the figures and from your experience, you realize that a business to be successful must know how to handle its money. It must know both in absolute and relative form the operating relationship between cost, and price and volume. It should know the margin of safety between important balance sheet ratios. When cordial relations exist between the credit department and the customer, a credit executive is in a position to sit down with the customer, review the progress that has been made and thus contribute in a very direct way to the profitable marketing of his company's products.

This personal and direct contact with the customer enables the credit executive and members of his staff to meet the customer in his own environment, to secure an intimate knowledge of his personal characteristics and his manner of doing business. He is also in a position to secure a great deal more information than through the ordinary channels of credit inquiry and investigation, and many times considerably in advance of publication through the usual credit channels.

Personal Investigation

In unusual situations and in many instances when new business is offered, the credit man is in a position to supplement the regular routine information by personal investigation right on the ground, and thus cover every phase of the credit question. This enables him to get a closer insight into the progress and problems of the customer. In many cases he can help the customer solve some of his problems and through the broader viewpoint, good will can be further cemented, and perhaps the company is placed in a position to broaden the line of credit, thus providing for a larger volume of potential business. This type of service on the part of the credit department need not necessarily be restricted to marginal accounts. It is equally welcome by all types of customers.

Suppose we now explore the second question, "In what ways may assistance be extended to customers?" Were you to reach into the realm of your past experience, you certainly could cite many examples of how you have been helpful to your customers. These thoughts are offered, therefore, by way of refresher information and to illustrate some interesting highlights of a credit department at work.

Management

This is the case of a concern in business for over twenty years. They have always been short of working capital, and faced with one problem or another. Some time ago when we learned of current difficulties and we visited them, we met the key members of their staff and observed their plant and operations. Why an organization with the good product, good labor rela-

tions and in a position to make money was invariably confronted with emergency situations puzzled us. After a review of the history of the business, the conclusion was reached that to justify continued support, they would have to start operating on a consistent policy of good business principles and the finances would have to be controlled.

Very often a business is faced with difficulties, not because the undertaking is inherently unsound or the principals incompetent, but because some phase of business management has not been mastered. It may relate to accounting, or financial policy, labor relations, technical equipment, business organization and administration, buying or selling, et cetera.

To resolve the situation in question, we encouraged the management to confer and confide in us. The causes of some of their past difficulties were reviewed. They were urged to correct the situation and build for the future. It was suggested that it might be wise and save them money to employ an auditor or a business counsellor service which could be of assistance in the solution of their financial, tax and managerial problems. The suggestion was adopted and we have been working closely with the customer and their business consultant. The result is that today the business is in a comfortable, current position. Their net worth has been increased substantially and bills are being discounted. They continue to seek our advice with the result that it is possible to keep in close touch with their progress and the sales department is likewise happy over the good will developed.

A Growing Enterprise

You may be interested in this case as a comprehensive illustration of the extent that it is possible for a credit department to be of assistance to a growing enterprise. The concern did a regular jobbing business with little manufacturing. They decided to expand the profitable manufacturing activities and through their sales efforts substantially increased their volume. This immediately put them into the big business class. They were faced with problems of finance, personnel, policies, procedures and other innumerable factors.

The increased line of credit required naturally necessitated personal contact. As a result a close association developed. We conferred frequently and made helpful suggestions on the matter of finances. They were urged to hire competent personnel to assist them in factory management, purchasing, accounting and tax problems. Direction was offered for the organization of some office systems and procedures. We counselled with them on the handling of credit and collections, discussed cost problems and also assisted in the analysis and review of the trend of their business. We talked with them about budgets and forecasts, and actually developed some of the figures for the sales record and forecast, for the cash flow forecast, and for the forecast of profits.

Planning the Business

You know that much has been written about business forecasting and budgeting, but actually how many businesses have some blueprint or chart of management to give the results of decisions already made and to support judgments on what the profit result will be on a certain volume or if certain changes do occur? It is recognized that no operating budget will ever keep a business from sinking for no budget can ever supplant good management, but the chances are that the business with even a poor or incomplete plan will be more successful than a business with no plan at all.

It is true that you would not in ordinary cases go to this extreme in working with your customer. On the other hand, the businessman who wants his business to grow is usually receptive and seeking counsel to check his plans. Friendly relations are developed and there is a desire to review policy matters and problems. Appropriate recommendations and suggestions go a long way to make a loyal customer. He wants to deal with you because you are helping him to prosper. In turn, this insures distribution for your products and usually added volume.

A credit man had occasion to review a report which a manufacturer had completed to ascertain the extent of branch and warehouse service operations extended by certain prospects. The credit man realized that some important facts had not been fully developed. To clarify and encourage further investigation, he therefore raised some probing questions. Additional checking disclosed much pertinent data having a bearing on expenditures for new manufacturing facilities and a marketing program for a new product.

Although the facts about a particular business situation are probably already known, the information is not always readily available to the average businessman. Executives labor for years under handicaps which would be unnecessary if they would but develop the habit of hunting for knowledge that is probably carefully recorded by specialists in books and periodicals, and carefully indexed and classified by others. One of the chief disadvantages of a small town is the lack of abundant library facilities. In fact, very few cities have adequate library facilities in nearly all specialized fields, and sometimes even in a large city like New York, one must search from one library to another for what is desired. The alert credit executive has a day-to-day view of markets, finance and other fields of business. He observes them from different angles and can often supply some basic points of information or direct attention to where it may be available. There is no doubt that helpful suggestions of this character to customers, can pave the way to healthier relationships.

The General Trade Letter

Credit executives in the course of their daily activities find some customers who are reluctant to cooperate or are unreceptive to suggestion of any kind. When the situation is sufficiently important, it is possible that it could be handled by an indirect approach through the medium of a general letter to the trade. It would thus be possible to outline the situation existing generally in the trade about inven-

(Continued on Page 40)

The Business Outlook

With Peace, Prosperity Can Last Into The 1950s

by DAVID C. ELLIOTT
Economist
CLEVELAND TRUST COMPANY

For the last year and a half we have been hearing talk about an impending recession or depression. According to past history, this country's great wars have been followed by a business boom and later by what is termed the "primary postwar depression." In the War of 1812 period, business activity reached its peak at the end of 1815 and then declined, with one temporary interruption, to a state of depression in 1820. The Civil War was a little different in that the peak was reached in the North in 1864 while the war was still on. An irregular downtrend followed, culminating in depression during the latter half of 1865. After World War I there was first a brief drop, and then a period of rising business which continued until the early months of 1920. Thereafter a rapid and severe decline carried us into the postwar depression of 1921.

Inflation Background

The World War II pattern started out to resemble that after World War I. There was a sharp but relatively short reaction in business activity in the last half of 1945, due to the sudden cessation of the huge volume of war orders and to the problems of reconversion. Then followed the strong business recovery, hampered though it was in its early stages by long and costly industrial strife. But the pattern has deviated in that this postwar boom has already outlasted its predecessors, so that purely on a time-lapse basis, the long-advertised postwar depression really is overdue. Two questions are involved here: (1) what has kept this boom going; and (2), is it likely to slide off the edge some time in 1948.

Before dealing with current trends, some background information may be helpful in showing how we arrived at our present condition of record peacetime output, peak employment, large purchasing power, and high prices and living costs.

The common phenomenon of all these postwar business booms has been inflation. All of our great commodity price inflations have originated in war. They have come about because the supply of money and hence of purchasing power, has grown more rapidly than the supply of civilian goods. Major wars involve the immense production of military goods for destructive purposes. But people receive wages for making these things, and thus acquire purchasing power at a time when the available quantity of civilian goods is limited. The process is aggravated by government borrowing for war needs, since governments find it impossible, or at least inexpedient, to finance great wars entirely by taxation. The result is an unbalanced national budget, a rising national debt, and an increase in the money supply which outruns the production of civilian goods. The pressure of excess money on goods sooner or later develops into price inflation.

From July 1, 1941 through June 30, 1946, the government raised the enormous sum of $383 billion. Of that total 44% was obtained by taxation, which incidentally was a better percentage showing than in the three preceding major wars. The remaining 56%, or $214 billion, was raised through borrowing. About $128 billion of this came from sales of securities to non-bank investors. This was the least inflationary type of Treasury borrowing, since it represented mostly the absorption of savings. But non-bank investors did not purchase all of the war issues, so that the remaining $86 billion had to be financed through the banks. Of that total, $64 billion of Treasury securities were sold to commercial banks, and the other $22 billion were bought by the Federal Reserve banks.

These sales of war issues to the banks were at the root of the rise in the money supply which led to inflation. In the narrower sense, "money supply" means demand deposits in banks and currency outside banks. When a bank makes a loan, it ordinarily credits the borrower's checking account. This increases bank deposits, and hence the money supply. Similarly, when the Treasury sold war securities to a commercial bank, the latter credited the Treasury's account. As the Treasury spent the money, it was deposited by the recipients in their banks. The net result was a gain in bank deposits—and perhaps also in cash, if some of the recipients chose to take cash rather than to deposit their government checks. In either case, the money supply was increased accordingly.

Huge Gain in Money Supply

The result of this wartime expansion process was a rise in the supply of money from $46 billion on June 30, 1941, to $106 billion on June 30, 1946, or a gain of $60 billion. If the definition of money supply is broadened to include time and government deposits, the in-

crease was $97 billion—that is, from $74 to $171 billion.

From this background, it is apparent that the two most powerful forces behind the postwar business boom were the enormous backlog of consumer demand left over from the war, and the great rise in money supply and hence in purchasing power. After the first few months of readjustment following V-J Day, the question was not whether we would have a boom, but rather, how long would it last. The recovery in 1946 took the Federal Reserve Board's index of industrial production, based on the 1935-1939 average as 100, from 163 in December of 1945 to 182 in December of 1946.

When Will Boom Terminate?

By the beginning of 1947 many, though not all, observers thought that the business uptrend would terminate some time during that year. Most of these felt that the subsequent recession would be mild and of comparatively short duration. Among the reasons frequently mentioned for the coming of recessions were: (1) the pipelines, chiefly in consumers' goods, were gradually filling up, and this along with existing high prices would strengthen consumer resistance and cause a slowing-down in their expenditures; (2) exports would turn down; and (3) the rate of inventory accumulation would decline.

But the 1947 recession failed to materialize—in fact industrial production was higher at the end of the year than at the beginning, and for 1947 as a whole it was 10% larger than for 1946. Exports reached an extraordinary peak during the first half, although they did taper off thereafter. The rate of accumulation of inventories dropped off in the second quarter, but then picked up again. And instead of declining, consumer expenditures actually increased. In addition, some more or less unpredictable factors entered into the 1947 business rise, including very poor crops in Europe which stimulated the demand for American foodstuffs; the further advance in wage rates and earnings; and the marked increase in capital expenditures for new plant and equipment.

The basic reason for such large spending in 1947 was the great strength of the demand for goods, together with enough purchasing power to translate this demand into actual buying in spite of high prices. True, by the end of 1947 the wholesale commodity price index was about 100% above the pre-war level, and the retail cost of living index was 67% higher. But the indicators of purchasing power, as compared with pre-war, had advanced even more than prices. Average weekly earnings of factory workers, for example, were 135% higher at the end of 1947 than for the 1935-1939 average. Disposable personal income after taxes was 178% higher; money supply was up 275%, and accumulated personal savings in the form of time deposits and government bonds were up more than 215%. Thus the public as a whole possessed enough funds to buy the goods being produced, even at the prevailing high prices; although persons with fixed incomes, or whose incomes had lagged behind price increases, were already feeling the squeeze.

Recession Was Expected

At the beginning of 1948, business forecasters took another look. This time the feeling was widespread that enough momentum existed to carry business along at about the current rate of activity during the first half of 1948. Opinions differed as to what would happen thereafter, but the consensus seemed to be that the long-expected recession was due to appear some time in the second half of this year. A variety of reasons were advanced for this belief, such as a probable slowing-down in capital expenditures for new plant and equipment; the further cutting down of deferred demand; the doubt that net exports would hold up to the extraordinary level of 1947, even with the Marshall Plan; tighter credit conditions, and the probable deflationary effect of the use of the government budget surplus to reduce the national debt. Perhaps the underlying thought could be expressed in the phrase "This can't go on forever." On the other hand, it was recognized that large backlogs still existed in such leading industries as automobiles and steel, that impending tax reduction would add something to the consumers' spending stream, and that a third round of wage increases, should it occur, would intensify inflationary pressures.

The lot of business prognosticators is not an easy one, but thus far in 1948 most of them can point with pride to their predictions of continued high business activity during the first half. Physical output has gone right along at about the rate existing at the end of 1947. The Federal Reserve Board's index of industrial production, after seasonal adjustment, was 192 in November, 192 in December, 193 in January, and 194 in February. It then dropped to 192 in March because of the coal strike, and will doubtless be down again for April for the same reason. Perhaps we should pay more attention to the plans of Mr. Lewis in making month-to-month forecasts of the production index.

Prospects of Last Half of 1948

As to the prospects for the last half of 1948, two conflicting developments have occurred to plague the forecasters. The first was the truly precipitate drop in grain prices in February, accompanied by weakening in various other prices. In itself, this drop represented the correction of an over-extended price level. Much improved prospects for world crops, together with the near-completion of government buying of wheat for the current crop year, knocked grain prices off the dizzy peak to which they had ascended. They have since recovered somewhat, but are unlikely to get back near the top this season unless crop weather should become very bad.

The question immediately arose—would the effects of the agricultural price drop extend further, so that in future years we would point to February, 1948, and say "That was the signal." Certainly there was some reason to suppose that such a sharp price reaction would induce caution, which in turn would strengthen the expectation of a downtrend after mid-year. And an examination of business news during February and the first half of March did indicate a spirit of hesitation, at least in

consumers' goods. Here are some of the news items appearing at that time: decline in tire sales and cutback of production; farmers become more careful with their cash; mail order sales slow down; substantial dip in furniture sales; candy makers worried about drop in sales; public is buying fewer shoes due to high prices; less demand for textiles; department store sales compare less favorably with a year ago than was the case earlier; smaller movie attendance; night club business not so good; lower restaurant tips. Even the used car market in automobiles seemed to be slackening. All this indicated that customers were doing a certain amount of retrenching and were willing to wait awhile, at least as to some of their buying, on the theory that prices in general might go down.

Rearmament Alters Ideas

Such signs and portents were not enough to bring about an immediate decline in total production, because they were offset by the strong demand still existing for steel products and other important durable goods. But the feeling grew, though it was not unanimous, that the scales would be tipped later on, so that a recession in total business activity would commence before the year was over.

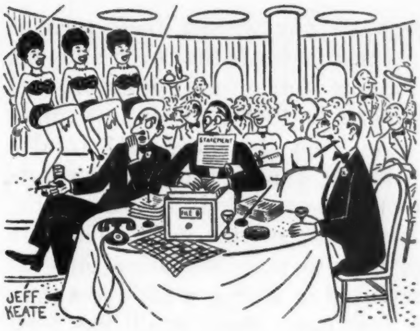
There is much to be said for this viewpoint, and indeed it could prove to be correct. But the whole line of reasoning has been thrown into the realm of uncertainty by the second development—namely, the President's rearmament speech on March 17 which followed the growing tension in our foreign relations. Perhaps I should add the tax reduction law and the enactment of the European Recovery Program, with their implications of increased spending, although I think these were pretty well discounted in advance. But the possibilities in an enlarged armament program have caused a re-appraisal of earlier expectations, partly because of the unknown billions of dollars which such a program might eventually require, and partly because of its psychological aspects.

It is difficult at this stage to appraise the effects of larger armament expenditures, chiefly because the program itself can change at any time in accordance with world events. Proposals made thus far indicate the boosting of military appropriations from **$11** to about **$14** billion in the fiscal year **1949.** This addition of **$3** billion is not very stupendous when compared with our gross national product, now running at the rate of around **$240** billion a year. Nevertheless, it will have a very considerable impact on items already in tight supply, notably steel products. And if future events should cause the sights to be raised by another **$10** or **$15** billion a year, bringing the Federal budget up to say **$50** or **$55** billion instead of **$40** billion, the effect on business activity would undoubtedly be strong, to say nothing of inflationary.

To illustrate the kind of mental gymnastics involved in contemplating the effects of that sort of program, take the single question of the Federal budget. How would the additional revenues be raised to meet a **$50** or **$55** billion budget —by renewed deficit financing, or jacking up of taxes, or going to a still higher level of prices and wages, or any two of these or even all three? Someone will say, cut non-essential government spending. Certainly this ought to be done, but it could hardly turn the trick alone, assuming **$10** or **$15** billion added for armaments.

Brings Shortages

It should be realized, of course, that great business activity supported by orders for armaments does not call for cheers from the purely economic standpoint. That kind of business means the diversion of labor and materials from productive civilian purposes to destructive military purposes. There is no true economic gain from battleships, bombers, and bullets. In the present state of world turmoil and turbulence, the public is willing to support an enlarged armament program as a matter of self-protection and, it is hoped, as a method of preventing another war which would be still more costly. The justification for armament expenditures must be on these grounds, and not on the grounds of conferring any real benefits to the civilian economy.



"Please, Gleason-- we have a much more subtle way of selling out-of-town customers!"

At the risk of repetition, I should like at this point to summarize the business situation as it stood on May 19, 1948. The nation's industrial plant is turning out goods at a record rate for peacetime, and is operating at or near its present capacity. Labor is virtually fully employed, personal incomes are the highest in history, the population is growing at faster rate than for many years, and there is still a backlog of demand for numerous articles. Price inflation has cut deeply into the purchasing power of the dollar, but has been more than equaled by the rise in total incomes and the money supply. These things, in brief, spell prosperity. What are the prospects for their continuance?

Conclusion

I think that the opposing factors today are pretty much as they have been for some time, except for the armament question and a possible change in psychology from that existing after the February agricultural price drop. The principal element on the downside is still the piecemeal catching up with deferred demand in a growing number of lines. We have seen it in such consumers' goods as tires, radios, some household appliances, glassware, shoes, clothing, and so forth. Other things being equal, one would expect more and more industries to reach the caught-up stage as time progresses. Another factor on the downside was mentioned earlier—that is, the cumulative effect of high prices on those living on fixed incomes, or whose incomes have lagged. Such persons can perhaps live off their savings for a while, or even borrow; but eventually they will have to cut expenses unless they find some

way of augmenting their income. A third factor is that even allowing for the foreign-aid program, net exports in 1948 may decline somewhat from the huge 1947 total—with the qualification that exports to Europe are likely to spurt in the latter part of this year. The rate of inventory accumulation thus far reported in 1948 is a little less than a year ago. Bank credit has been somewhat harder to obtain. And the sizable government surplus for this fiscal year has enabled the Treasury to whittle down the national debt by $6 billion since last June 30, nearly all of which represented a decrease in the debt owed by commercial and Federal Reserve banks.

No Slowdown in Durables

On the other side of the picture, we are far from being caught up with the demand for such important durables as automobiles, homes, machinery, freight cars, oil pipelines, and public utility equipment. Thus it is unlikely that operations in the steel, automobile, and some other durable goods industries will slow down in the last half of this year. Related to this is the very large volume of capital expenditures for new plant and equipment. According to a survey published in April by the Department of Commerce, planned expenditures for these purposes in 1948 will be 15% higher than in 1947, although plans of course are subject to change. Wage rates are still edging upward; there have been some third-round advances and there may be others, even in the face of stiffening resistance. We may see more strikes, which would temporarily reduce output but which would mean that much more production later to catch up. The recent lowering of Federal income taxes will add something to consumer purchasing power, and will moderately increase the inadequate supply of venture capital.

Finally, after the prospective increase in armaments became known, public psychology seemed to move away to some extent from the spirit of caution evident in February and early March. This sort of thing is intangible and hard to measure, and is notoriously subject to the shifting course of events. Still, when we read of a sudden burst of anxiety to obtain both new and used automobiles, it is worth while to make a mental note. Further concrete evidence of that sort might make quite a difference in the outlook.

Severe Reaction Unlikely

These are some of the opposing elements in the business situation, and at the moment they are just about offsetting each other. After trying to strike a balance between all the various factors, I should really like to declaim that "The business outlook for the rest of 1948 is fraught with uncertainty." This bromide sounds impressive and also has the advantage of not saying anything. However, since something more specific is doubtless expected, I will take the plunge and say that I anticipate continued high business activity during the rest of this year, with the industrial production index for the last six months combined being probably not more than 5% different from the first six months. In other words, if there is a reaction it will not be severe.

The reason for this appraisal is simply that the possibilities for enlarged armament, added on to the other elements previously discussed, appear sufficient to postpone once again the long-awaited postwar depression. I would not hazard a guess as to how long it could be postponed after 1948, because future world happenings are unpredictable. So in conclusion, here are one or two observations concerning the more distant future:

Armed Truce Causes Uncertainty

Judging from what happened after our past wars, the usual pattern would be for us to have our primary postwar depression and get it over with, and then to enter on a lengthy period of good business. But the pattern will have to be reconsidered if we are going into a prolonged armed truce. That is something new for this country. We are not used to carrying such heavy military burdens in peacetime. If it were not for world uncertainties—or to put it differently, if it works out so that we shall have real peace — the outlook in my judgment is for prosperity in the 1950's. This is particularly so in view of the worldwide need for goods, and the rapid growth in our own population which will require more schools, playgrounds, community centers, houses, home furnishings, streets and roads, electric and gas utilities, and many other things.

Credit—Sales

(*Continued from Page 5*)

counted—totalled over two million dollars on which the net profit was many times the frozen initial order. Even had the first order resulted in a total loss, the transaction would have been highly profitable but, while not strictly germane to the moral, it is of more than passing interest that it was eventually paid in full.

All that appeared in the Credit Man's statistical record was a suspended account, regarded as a potential bad debt, but the salesman knew that it was something of much greater magnitude and the credit-sales partnership was welded inseparably.

All of which serves to emphasize our theme: the salesman who has a profit-conscious Credit Man has an added and potent sales-promotion aid in his brief case.

New Book Published on Bank Instalment Loans

Increased interest in instalment credit makes it necessary for bankers to have an intimate knowledge of this type of lending, according to Lehman Plummer, chairman of the Consumer Credit Committee of the American Bankers Association, who has published a new bank operating manual "Streamlining Your Instalment Credit Department," which is available to member banks upon request.

"This manual," Mr. Plummer said, "will guide banks in carrying on safe and sound, yet profitable operations in the consumer instalment credit field, and it has a further objective to assist in formulating standards of practice and uniform systems of accounting in order that bankers may know their cost and true profit." Mr. Plummer is vice president of the Central National Bank & Trust Company, Des Moines, Iowa.

Where's The Money Coming From?

Three Paramount Problems Facing Industry

by ELMER L. LINDSETH
President
THE CLEVELAND ELECTRIC ILLUMINATING COMPANY

A year or so ago my Company's executive staff took a look at the future to see where we might be in 30 years, and how to develop an organization that could operate our Company 30 years hence. A little later, at the Edison Electric Institute convention last year in Atlantic City, we expanded that idea and took a look at what the electric utility industry would be like 30 years hence.

What I have to say here is based on my experience in the electric utility industry, but you will have no difficulty translating it into terms of the gas industry, the telephone industry, or any other industry.

Let's make this arbitrary assumption—that the electric utility industry in the next 30 years grows at half its rate in the past 30. That's an arbitrary assumption, it's an unimaginative assumption; but starting with that assumption, let's project the electric utility industry 30 years.

First, we will be selling a thousand billion kilowatt-hours a year. A new series of numbers, a trillion kilowatt-hours plus, will be used to measure the annual sales of the electric utility industry — based, mind you, on the premise that we grow half as fast in the future as we've grown in the past. And we're growing today faster than we've ever grown.

At yesterday's price levels, the electric utility industry 30 years hence will do 14 billion dollars a year of business if we grow half as fast as history has shown we grow. We will have—and this is at yesterday's price levels, not even at today's—a hundred billion dollars invested in the electric utility property and plant. If we add to that the gas business, the telephone business, and the water business, we will have a vision of the utility business in 1978.

To set this in proper focus in our sights, we must remember that the entire industrial productive plant in America prewar—that is steel, automobiles, chemicals, all manufacturing — was estimated at seventy billion dollars.

If the electric utility business continues to grow at half the rate it's grown in the past 30 years, we'll have a productive property and plant account one-and-a-half times as big as the whole industrial plant of America prewar.

Applies to All Industry

What I'm saying is not unique to the electric utility industry; it's characteristic of business as a whole, and it must be more or less characteristic of your own Company. With growth of this character come problems and opportunities. Problem number one, and one to which each of us must address himself, is the answer to the question, "Where's the money coming from?"

In order to raise this money it's required that we have economic literacy, first of all, among ourselves; and second, in all America. This is a capitalist economy. The essence of a capitalist economy is capital. And in industry, we must rely not alone on capital. We must rely to an increasing degree on risk capital, on venture capital — on common stock money.

There's great public misunderstanding of the sources of capital. There's great public misunderstanding of what makes our economic machinery work. There's great public misunderstanding of a capitalist. So it requires a literacy on our part, a literacy with regard to fundamental economics, a literacy with regard to an important phase of economics which vitally affects the raising of this capital—that is, the influence of taxes.

We're all familiar with the changes in the personal income tax laws which Congress voted recently. They had a very important significance for industry. There are very few people in industry who make, let us say, a hundred thousand dollars a year or more, yet changes in those tax laws on incomes in the high brackets and in the intermediate brackets have a very significant influence for you and me.

Those tax changes are significant because they make possible the opening up of sources of capital hitherto closed because of unwise taxation.

Double taxation on corporate dividends may sound like English, but we owe it to ourselves as people concerned with fiscal policies, to understand the implications and the complications which result from double taxation of corporate dividends and its deflationary effect on the investment of risk capital.

These sound like difficult subjects to discuss. Still, if an industry is to survive and we're to have intelligent tax administration in the United States, we must first of all understand these problems, and second, we must tell our story.

Investor Confidence

Investor confidence is extremely important to you and to me; success for our companies is an obligation to each of us. So let's be lit-

erate about answering economic questions and the sixty-four dollar question, "Where's the money coming from which your business and mine must have to continue to grow?"

The number two problem is to develop an adequate public understanding in the minds of our customers, our employees, and the public, on how important profits are to them, because if we are to attract the capital needed to provide for the expansion in your company and mine, if we are to provide the services which your community and mine so vitally need, we can do it only because the reward for risking capital in our industry is great enough to enable this business to attract the capital in competition with some other business.

The competition for capital in this country is substantial. Unless we show an adequate outlook for profits in our business, we can't expect intelligent people to put their money into our business.

I wrote a note recently asking our Advertising Department to noodle out an ad to the public saying, "Profits in our Company are more important to our customers, to our employees, and to the public than they are to our stockholders."

Stockholders Can Sell Out

This is an important fact. If our stockholders don't want to continue to be stockholders in our company, they sell their stock and they become stockholders in some other company. But our customers are deeply rooted in our community. They can't move to another town, at least very easily. Our employees have invested many, many years in our company. They make a career in our company, and they do not want to pull up stakes.

Our stockholders, however, can leave us right now. Some of them will leave us this very day. Our stock is traded on the New York Stock Exchange virtually every day. Some buy and some sell. The point I'm making is that unless my company and yours earn an adequate profit to attract the capital necessary to grow and expand, our employees either shrink in their jobs or lose their jobs, our customers will be inadequately served or not served at all.

So it is vital to the service rendered by a company like yours or mine that there be profits, and that there be an adequate broad realization of the importance of those profits.

We know that profits in an economic enterprise are the difference between the intake and outgo. The outgo is presumably efficiently controlled in each of our companies. I know credit men are giving very serious consideration to economical methods in the field of credit.

So there's the number two problem, as I see it, in industry. It is to develop a sympathetic appreciation on the part of our customers and the public of why it's in their interest that our profits be maintained, not at a skinny level, but at an adequate level, to enable us to attract the capital with which to expand the plant to serve our customers and the public.

The Personnel Problem

The third problem is one which is common to all American business, and in many American industries is the greatest single problem. It's the problem of attracting, selecting, training, and developing people to perpetuate the American business system.

The greatest scarcity in American business is brains; and if we are to intelligently operate an industry of the size which I envision for the utility industry, we must attract and recruit at the bottom today many, many more people of outstanding potential ability than we're now recruiting.

Here is a responsibility which each of you faces individually: to be sure that you are recruiting into your groups people of ultimate tremendous potential growth and development, that you are not only selecting them and attracting them and recruiting them, but what's even more important, that you are training them and developing them for very substantial responsibility.

Competition for good men is very, very tough. You've probably discussed in your own companies the poor results that your recruiters get in competition with other industries. I was amazed to hear a vice-president of a large mail order house say recently that his company had 12 men out recruiting talent in the colleges of America. Now, if we think young men are going to knock on our doors and say, "Mister, can I have a job?", when they are faced with that kind of recruiting throughout the country, we're just wrong.

If we are to operate our industry successfully in the future, we will need far more brains than we have had in the industry in the past. We can't run our business in the future on the manpower that we've been using in the past, and we're really not acting in the interest of our stockholders, our customers, or our employees by having as little overhead at the top, and as little organization at the top, as we've been using.

Summary

Dean David, of the Harvard business school, had in his annual report to the president of the university last year, one sentence that struck me as particularly significant. Dean David was talking about the fine job which the Harvard Graduate School of Business Administration is doing in the field of research in modern business methods, in the training and developing of manpower, and in keeping their sights set on the job they have to do.

He said he believed that the first responsibility of an American businessman is that he be a *good* businessman. So let's start with that. Let's all of us resolve that our first responsibility to ourselves and to our jobs will be that we be good businessmen.

Second, let's work on the first of the problems that I mentioned—the problem of economic and tax literacy, so that we may do a sound job in attracting the necessary capital which your company and mine must raise to answer the question, "Where is the money coming from with which to do this expanding job?"

Then, let's tackle the problem of developing in our own minds an intelligent understanding of the need for adequate profits and adequate rates, and let's tie this knowledge into our jobs and our daily contacts with our customers and our prospective customers.

Let's know the story. Let's tell the story.

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Psychology in the Credit Department

Stumbling-Block or Stepping Stone?

by STANLEY J. HUNTER
Credit Manager
FISHER FLOURING MILLS
Seattle, Wash.

If we take a look into the "bag of tools" of a successful credit executive what are we likely to find? Well, we may be sure it will include a thorough knowledge of accounting and commercial law, the ability to write a good letter, and those attributes of personality which enable him to "get along with people." These are the qualifications most usually sought, but I venture to suggest the desirability of another very important "tool" which gives its possessor a distinct advantage over those who do not have it. I have in mind the importance of a working knowledge of psychology, and it is to that subject that I should like to direct your thoughts in this brief article.

Psychology has been defined as "an analysis of the mental states and processes of a person or a number of persons, especially as determining action," but for the purpose of this discussion I prefer the simpler "home made", if perhaps inadequate, definition: "a study of the science of human behavior."

Important in Credit Work

In the daily routine of a credit executive, it is essential to recognize the important part which is played by psychological factors, and yet I doubt if sufficient attention is paid by any of us to that aspect of credit work. And so, it seems to me, it may be interesting and profitable to turn our attention to a brief review of a few of those principles of psychology which have peculiar application to the debtor and creditor relationship. The principles of elementary psychology are constantly employed in every credit department, but that fact is perhaps not sufficiently recognized. Were it not so, perhaps some of the worst mistakes of credit men might be avoided; on the other hand, if it were more widely appreciated, the effectiveness of some credit departments might be greatly improved.

As we all know, the word credit is derived from the Latin word "credo" meaning 'I believe'. Belief in one's fellow man, therefore, is the essential foundation on which all credit-debtor relationships are built, and yet how many of us take care to keep that concept of our work constantly in mind? Granted that all of us too frequently have experiences with dishonest and unco-operative debtors that cause us to have our doubts about the truism that all men are fundamentally honest, the point is that once we permit such an attitude to govern our thinking and direct our actions and decisions, we are psychologically unfitted for our task and rendered incapable of doing an effective job. This is a very simple yet important example of the way in which mental habits can fasten themselves upon us, and by so doing, direct our thoughts into channels which, once established, are difficult and sometimes impossible to change.

The cure? Each must discover that for himself, but it is this writer's belief that it is to be found in a determination to be free of prejudice at all times, and to refuse to allow one experience to influence unduly our subsequent actions and decisions.

Avoid Prejudice

One of the strongest manifestations of psychological forces is in the field of prejudice. It was Anatole France who said "He flattered himself on being a man without any prejudices; and this pretension itself is a very great prejudice." True though that may be, it remains a fact that in his daily work the credit manager must constantly strive to rid himself of all prejudice and base his decisions on known facts, and facts only, instead of allowing himself to be influenced by past experiences which may temporarily obscure the real facts in the situation before him. We have all seen how this operates, and if we are honest in our thinking, all of us without exception will recall instances in our own experience when we have been guilty of faulty judgment for this very reason.

The job of credit management, be it never forgotten, is judicial in its nature. A credit man who is a victim of prejudicial thinking is no more fitted for his responsibilities than would be a judge who handed down his verdict before hearing the evidence! To assemble all ascertainable facts, both favorable and unfavorable; to distinguish between important and unimportant factors; to sift all of these facts and having done so to strike a balance; these are the steps which must enter into the rendering of every intelligent credit decision, and there is no place for prejudice anywhere in this process. Indeed it might well be said that when prejudice creeps in, intelligence runs out.

Need for Balanced Thinking

In the very nature of his work, a credit executive must devote most of his time and attention to those customers who are slow or delinquent in their payments, and we would be less than human if we did not at times allow our thoughts and

Short Cut To Success

At this very moment a large group of executives from all parts of the country is gathered at the University of Wisconsin for the second session of the Executives' School of Credit and Financial Management, which is sponsored by the National Institute of Credit in cooperation with the University's School of Commerce.

Some of those executives are there for the second time, having attended last year's session. They are seasoned, experienced credit executives, the top men in their profession. Yet they are still going to school.

Why?

Because they feel there is still further to go and they want to be ready when the opportunity presents itself.

Because they feel that they can do a better job if they know more about it.

Because they *know* that education is a never-ending business.

How much more important it is for those in the credit profession who have not yet "arrived" to do all in their power to improve their knowledge of credit. How essential it is for them also to be ready when the opportunity for advancement comes their way.

In the field of credit the best way to advancement is to study with the local chapter of the National Institute of Credit. If there is not one near enough to your home fill in the coupon below and mail it at once.

National Institute of Credit
One Park Avenue
New York 16, N. Y.

☐ Please send me details about Credit education by correspondence.

☐ Please send me the address of the nearest chapter of the National Institute of Credit.

☐ Check if a veteran.

Name .... Address ....

Firm .... Address ....

actions to be affected by that peculiarity. But—and this is the all important point—we must strive constantly to preserve a sense of proportion. And yet how easy it is for us to forget that, not once but repeatedly, and in so doing to allow our attitude to become distorted. Not only does this make it easy for us to fall into errors in our thinging; worse than that, we are inclined thereby to pay insufficient attention to those customers who habitually discount their bills and maintain an excellent paying record even under adverse circumstances.

How easy it is to limit our contacts with customers, either by correspondence or personal calls, to those among them who may be generally described as "credit problems." And how seriously our judgment is affected when we fall into that habit! To avoid such an error every alert credit executive must keep constantly in mind the vital importance of maintaining the closest possible contact with all customers, instead of only those who are his more immediate concern by reason of their weaker financial position and poorer paying habits.

And there is another opportunity for constructive credit work in this same connection. I have reference to the recognition of the prompt paying habits of our customers by an occasional expression of thanks, either verbal or written, as the case may be. Too seldom, I think, is this done by the average credit manager today, and yet how easy it is to build goodwill in that way.

Apologizing to Debtors

Another psychological trap into which the inexperienced or unwary credit man can all too easily fall is that which results from an apologetic attitude in discussions with delinquent debtors, or when asking for proper observance of terms of sale. Once that state of mind is laid bare to an unco-operative customer, your cause is lost, Mr. Apologist, and thereafter your task is made doubly difficult. This does not mean that one has to be "tough" in such situations, but it does call for an attitude of firmness mingled with a proper consideration of the customer's point of view. This error, in the very nature of the case, is more common among inexperienced credit managers but is by no means limited to them.

Yet another practical use of psychology is found in the deliberate practice, employed profitably by some credit executives, of avoiding whenever possible the termination of a credit interview on a "sour" note. No matter how unpleasant an interview may be—and, try as we may, such interviews cannot be entirely avoided—it is always, or nearly always, possible to end it in such a way that no "rough edges" remain to torment either party.

And it is possible, too, to err in the other direction, that of being too sociable or "pally" with debtors. It has truly been said that collections cannot be made at the luncheon table, and we should be ever mindful of that fundamental fallacy. There is a place for everything, and courteous treatment of your customer-debtor who has become a credit problem does not call for entertainment as a means of improving the relationship.

The "Credit" Bugaboo

Recent proposals to abandon the term "Credit Manager" because of its unpleasant (to some debtors) implications, have their roots in psychological soil. It is a known fact that "the mental guard goes up", even involuntarily, when some debtors see or hear the term "Credit Manager" used. Lacking an alternative title which is less objectionable from that point of view, it is well under certain circumstances to use no title at all in correspondence or when meeting customers for the first time. In personal experiences over a period of years, the writer has had many opportunities to observe the workings of this subconscious reaction, and is firmly convinced that it is often better for a credit manager to avoid the use of any title when announcing himself. At such times the simple "John Smith, of the XYZ Co." is much better as an introduction than "John Smith, Credit Manager of the XYZ Co." Regrettable perhaps, but none the less true, human nature being what it is. And a few experiments along this line have furnished interesting and convincing proof that the task of gaining a customer's goodwill is made less difficult when the word "credit" is eliminated in the opening stages of a first interview. Those who doubt the importance of this suggestion will be well advised to give it a trial and discover for themselves what a difference it can make.

Inexhaustible Topic

These are but a few examples, chosen at random, to show how a knowledge of elementary psychology can be employed to good advantage in making our efforts more effective. Obviously, this topic could be pursued at much greater length, but this is not intended as a treatise on psychology. If enough has been said to awaken the interest of some readers in further exploration of the subject, those who do so will find it not only a profitable, but also an absorbing study and will discover that it can be truly a "stepping stone" to greater success in credit management.

ABA President Says Spending Must Be Slowed

Some way must be found, short of forced saving, to slow down spending which is forcing up prices and reducing the rate of the savings accumulations of the people, Joseph M. Dodge, president of the American Bankers Association told the New York State Bankers Association, meeting at Bretton Woods, N. H. Mr. Dodge is president of The Detroit Bank, Detroit, Michigan.

"Reports for the year 1947 show that consumers spent more on goods and services than ever before in our history," Mr. Dodge said. "In 1947, personal consumption spending increased $21 billion over 1946, and increased in every quarter of the year. Savings did not, and the year ended with $4 billion less personal saving than in 1946. Actually consumers spent more than the increase in their personal incomes, less tax and other payments. This added substantially to the inflationary pressures."

Book Reviews

Records Management and Filing Operations—by Margaret K. O'Dell and Earl P. Strong, both of the Remington-Rand staff. Published by McGraw-Hill Book Company, New York, 1947. Price $4.00.

This book has been written for the purpose of assisting management in establishing definite policies and procedures that will result in adequate control of the filing and keeping of records. It is also designed to be helpful to the personnel in an office organization which is responsible for the handling of records. The authors have shown how to plan and manage files for quick reference and service. They clearly outline the advantages and disadvantages of centralized as against decentralized files. Valuable suggestions are given as to controls over incoming communications and records and how to readily obtain essential information from the files.

This is a book which the credit manager can well afford to include in his working library. While the applications are not made specifically to credit department practices, they are clear enough so that the principles can be readily applied.

The National Debt and The New Economics, by Seymour S. Harris, Professor of Economics, Harvard University. Published by McGraw Hill Book Co., New York, 1947. $3.50.

In these times when business executives are much concerned as to the nation's policy and procedures on the fiscal handling of our huge national debt, it behooves them to get the unvarnished facts from a reliable and unbiased source. Here is a volume that presents a well-rounded view of the past, the present and the future status of our national debt. We know the debt is affecting prices, interest rates, costs of doing business, employment, and the general economic well-being of the nation. The author believes we all need to possess a clearer under-

standing of these factors if we are to obtain the proper perspective and arrive at sound conclusions.

The Art of Detection—by Jacob Fisher. Published by Rutgers University Press, New Brunswick, N. J., 1948. Price $2.75.

Here is a book which is well worth reading, particularly by persons who contemplate entering the investigative field or who may be called upon to assist in detecting fraudulent practices.

Mr. Fisher covers a very difficult subject in an excellent manner, and while no two investigations are ever alike, he paints a clear picture of the many obstacles one must overcome to obtain satisfactory results.

Chapter 10 is devoted to obtaining competent credit information and to the necessity of continually coping with abuses arising from the misuse of credit. Chapter 11 is concerned with business hazards and personnel investigation, while Chapter 12 is devoted to the important subject of insurance coverage as a safeguard against those who would take from business that to which they are not entitled.

Bank Credits and Acceptances, by Wilbert Ward, Vice-President, The National City Bank of New York, and Member of the New York Bar, and Henry Harfield, Member of the New York Bar. Third edition, published by Ronald Press Company, New York, 1928, price, $4.50.

Here is a volume which every credit manager, treasurer and comptroller should read and study. The authors state baldly that "The turn of the cycle brings us again into a period of exchange instability and credit uncertainty similar to that which, following World War I, first tested our bank credit and acceptance business."

The obvious purpose of this book is to contribute to the avoidance of a repetition of the difficulties encountered in the early twenties and early thirties.

The exporter, the importer and the banker, as well as other credit and financial executives, will find in this volume a wealth of material and information of great assistance to them in handling international trade problems.

The authors introduce the reader to the picture of international trade transactions, their classification, and the type of documents ordinarily required for international trade transactions.

The duty of the bank in examination of documents, the problems of handling irregular payments, and the transactions to be taken care of in the interval between the time the goods are ordered and delivered, are effectively treated. Other sections of the book deal with acceptances, the creation of acceptance credits, assignments, standard forms, international commerce, credit regulations, commercial credit, accounting, insolvency of issuing banks, and the role of bank credits and acceptances in post-war transactions.

LETTER TO THE EDITOR

Writer Pleads for Uniformity in Setting Discount Period

Every business today needs to turn more to "streamlining" than ever before and I am writing this as a plea to those in the electrical industry, regardless of their particular part in this field, to take an inventory of their business to find if they are meeting the demand for smoother and more understandable relations with their many contacts from both selling and purchasing angles.

Some of the most important items to be considered, and the ones requiring the most time to keep up with, are as follows: Lack of numbers on invoices; lack of order numbers on shipping tags and labels as well as invoices; and last but not least, that cash discounts period which lacks uniformity.

When an invoice is received without a number it is almost like trying to locate an address without having the street number, and likewise a shipment or invoice which does not give the purchaser's order number is as much trouble. In tracing shipments and entering claims, both invoice and order numbers are almost necessary and serve to shorten letters and telegrams about materials, etc., billed.

Non-Uniform Cash Discounts

The big time-taker and the one that needs more attention than anything you can mention in business transactions is the discount allowed for cash and the period in which it is allowed. Much misunderstanding has arisen from this and loss of business has resulted in lots of instances where, if regularity and uniformity had been followed, no one would have been hurt. There are too many discount periods and likewise too many amounts allowed for the various periods.

You can readily appreciate what your purchasing and accounts payable department as well as your sales and accounts receivable department has to do to keep in accord with such discounts. It is foolish and the brainwork used to remember these things should be placed on the more important phases of your business and this can only be done by having one discount period, if not the same amount, for this one period. The most acceptable and satisfactory period it seems, from experience, is 2%—10th Prox. Net 30 days. The kind of material billed might make the amount of discount vary from ½% to 5% but certainly you would have peace of mind in knowing that the discount period had not passed by oversight, that it will be or was the 10th of the month following your purchases.

What to Do About It?

Some manufacturers have been asked why uniformity of discounts periods might not be followed and

the reasons given varied. "It's our long custom to allow these discount periods and we are not going to change them"—came from one or more who allowed discounts ranging from net to 5% on invoices dated 1st to 15th and 16th to 30th if paid on 25th and 10th prox respectively. Others gave the reason that their particular discount period enabled them to collect accounts before having to pay their bills.

Cash discounts are valuable, if there be any. One cannot afford to lose them either from oversight or lack of funds. The banks are always helpful in discounting your bills and a uniform discount period would enable you to go only once to your bank for the necessary assistance of financing in the event you have to resort to this measure. The jobber, one of whom the writer happens to be, has, on the present setup, paid out practically all of his money before he can collect.

The discount period most agreeable to all concerned might be put to a straw vote and, regardless of what periods would be found to be the most popular, we should have one and the same discount period all over the country.

CHAS F. JONES, PROPRIETOR
Wilmington Electrical Supply Co.
Wilmington, North Carolina.

Moran Speaks Before Second Annual Joint Meet at Los Angeles

Ed. Moran, billed as the principal speaker with his subject the "Credit Side of Selling," addressed a capacity audience at a joint meeting of the Sales Executives Club, Purchasing Agents Association and the Los Angeles Credit Managers' Association. This was the second annual meeting of this group and the increasing interest was evidenced by our inability to meet the demand for reservations. The address was most inspirational bringing the three interests involved together in no uncertain manner and the ovation given him at the close of his remarks was by a truly appreciative audience.

The second speaker of the evening was Melvin J. Evans whose address was entitled "Human Engineering—The Dynamic of Industry." It was also most interesting and covered his experience in connection with management and the relation of mangaement to treating employees as human beings.

Uncle Sam's Payroll

Department or Agency	May	JUNE	Increase	Decrease
Executive Departments (except National Military Establishment)				
Agriculture	79,235	85,103	5,868	
Commerce	40,370	40,935	565	
Interior	51,690	56,338	4,648	
Justice	26,272	26,288	16	
Labor	4,532	4,514		18
Post Office	490,596	498,415	7,819	
State	21,890	21,919	29	
Treasury	89,644	89,386		258
Executive Office of the President				
White House Office	221	214		7
Bureau of the Budget	593	582		11
Executive Mansion and Grounds	96	60		36
National Security Council[1]	19	22	3	
National Security Resources Board	176	232	56	
Council of Economic Advisers	45	44		1
Office of Government Reports	17	17		
Emergency War Agencies				
Office of Defense Transportation	50	54	4	
Postwar Agencies				
Economic Cooperation Admin.	273	571	298	
Office of the Housing Expediter	4,591	4,568		23
Philippine Alien Property Admin.	134	142	8	
Philippine War Damage Commission	830	908	78	
War Assets Administration	22,663	17,129		5,534
Independent Agencies				
American Battle Monuments Comm.	117	121	4	
Atomic Energy Commission	5,031	5,030		1
Civil Aeronautics Board	622	632	10	
Civil Service Commission	4,125	4,106		19
Export-Import Bank of Washington	123	125	2	
Federal Communications Commission	1,366	1,380	14	
Federal Deposit Insurance Corporation	1,114	1,095		19
Fed. Mediation and Conciliation Ser.	378	383	5	
Federal Power Commission	792	809	17	
Federal Security Agency[2]	34,633	34,552		81
Federal Trade Commission	554	574	20	
Federal Works Agency	22,409	22,565	156	
General Accounting Office	9,232	9,170		62
Government Printing Office	7,114	7,074		40
Housing and Home Finance Agency	11,753	11,734		19
Indian Claims Commission	11	11		
Interstate Commerce Commission	2,292	2,301	9	
Maritime Commission	7,424	7,219		205
Nat. Advisory Comm. for Aeronautics	6,169	6,279	110	
National Archives	344	341		3
National Capital Housing Authority	286	282		4
Nat. Capital Park and Planning Comm.	21	8		13
National Gallery of Art	317	322	5	
National Labor Relations Board	1,788	1,992	204	
National Mediation Board	111	109		2
Office of Selective Service Records	737	758	21	
Panama Canal	24,002	23,477		525
Railroad Retirement Board	2,656	2,599		57
Reconstruction Finance Corporation	5,567	5,382		185
Securities and Exchange Commission	1,111	1,149	26	
Smithsonian Institution	513	516	3	
Tariff Commission	218	219	1	
Tax Court of the United States	126	126		
Tennessee Valley Authority	15,054	15,223	169	
Veterans' Administration	202,183	205,451	3,268	
Total, excl. National Military Estab.	1,204,230	1,220,555	23,436	7,123
Net increase, excluding National Military Establishment			16,313	
National Military Establishment				
Office of Secretary of Defense	875	984	109	
Department of the Army				
Inside continental United States	268,902	275,239	6,337	
Outside continental United States	130,071	126,733		3,338
Department of the Air Force	118,852	121,103	2,251	
Department of the Navy	343,355	347,687	4,332	
Total, including Nat. Military Estab.	2,066,285	2,092,301	36,465	10,461
Net increase			26,004	

[1] Exclusive of personnel of the Central Intelligence Agency.

[2] Includes 1,197 employees of Howard University and 102 employees of Columbia Institution for the Deaf.

That the Federal civilian payroll continues to mount higher and higher is indicated in the report issued by Senator Harry F. Byrd (D.-Va.) in connection with the monthly report on Federal employment. Senator Byrd, it will be remembered, is Chairman of the Joint Committee on Reduction on Nonessential Federal Expenditures. In June alone there were huge increases in the departments of Agriculture, Interior and the Post Office, as well as in the Veterans' Administration.

866 a Day Increase

"Civilian employment in the Executive Branch of the Federal Government totaled 2,092,301 for the month of June," said Senator Byrd. "This was a net increase of 26,004 over the number of employees in May. The increase averaged 866 a day.

Near Peace Time Record

"This increase was the largest for any month since January 1945 in the midst of the War. It was exceeded in only 5 scattered months during the depression years 1930-37 inclusive, when public payrolls were used to absorb unemployment. It was the sixth consecutive monthly increase in the current calendar year. It was the fourth consecutive month in which the increase averaged more than 500 per day. It brought the total increase for the first half of the current calendar year to 96,913 for an average daily increase since December 31, 1947, to more than 530.

Compared with War Time Peak

"The June figure closed the Government's fiscal year 1948 with a civilian employment average in the Executive Branch of 2,032,600 for the entire year. This annual average was nearly 60 per cent of the 3,465,420 average in the war peak year of 1945. It was approximately 95 per cent of the annual average requested by the President for fiscal year 1948.

Inside USA

"These statements are based upon figures in the monthly report on federal civilian personnel in the

Executive Branch for June 1948 published today by the Joint Committee on Reduction of Nonessential Federal Expenditures. The report shows that employment inside continental United States increased 29,143 during June, and outside the continent it decreased 3,139. It shows that of the net increase 5,487 were so-called industrial employees. It shows that of the net increase 16,313 were in the civilian agencies of the government, and that 9,691 were in additions to the civilian payrolls of the military establishment."

St. Louis Establishes Branch At Hannibal

Hannibal, Mo.: The initial Forum Meeting of the newly-formed Hannibal Chapter of the St. Louis Association of Credit Men was attended by 24 members. Officers were elected for the coming year as follows: E. M. Weaver, Hannibal National Bank, President; F. H. McDowell, McDowell Distributing Co., Vice-President; and T. V. Hilt, Wendt-Sonis Co., Secretary. Following dinner and the election, President Weaver introduced the Hannibal members.

The principal speaker was National Director Victor C. Eggerding, Gaylord Container Company, who traced the growth of the National Association of Credit Men from its inception to the present day.

Ebeling Elected Head of South Bend Assn.

South Bend: At the annual meeting and June frolic held at the Morris Park Country Club on June 3rd., the St. Joseph Valley Chapter of the National Association of Credit Men elected Fred Ebeling,. Dodge Manufacturing Company, Mishawaka, to the Presidency. Other officers elected were: John Appleton, Bendix Products Co., 1st Vice-President; George Rose, St. Joseph Bank and Trust Co., 2nd Vice-President; and C. S. Haffner, South Bend Bait Co., Councellor.

Green Bay Credit Men Elect New President

Green Bay: At the organization meeting held on July 21st, George Markham, Hamilton Manufacturing Company, was elected President. Other officers elected at that meeting include L. F. Kramer, The Larsen Company, Vice-President; Nels Nelson, Wisconsin Public Service Corporation, Treasurer; and V. S. Ames, Kimberly-Clark Corporation, Councellor.

Notes From Here and There

New York: The members of the New York Credit Men's Association recently amended the Certificate of Incorporation of the Association to increase the number of directors from 26 to 30.

As a result of this vote, the members of the Board elected four additional members as follows: L. D. De Vries, McCampbell & Company; Charles A. Johnson, American Steel & Wire Co.; J. C. Lynch, Pacific Coast Borax Co.; Jerome A. Thirsk, Central Hanover Bank & Trust Co.

Louisville: The Louisville and Lexington Associations of Credit Men held their Annual Frolic this year at French Lick Springs Hotel, French Lick, Ind., during the weekend of July 24-25. French Lick, it will be remembered, was the scene of the 1946 Credit Congress.

Providence: Henry T. Farrell, Executive Secretary of the Rhode Island Association of Credit Men, is recuperating from an operation which he underwent recently.

Your National Report

July 1948

To each Member of National:

There is a time and place for everything and, since this time is appropriate, I choose this place as an opportunity to impress upon each Member the importance of his membership and support to the Association.

Since those of you to whom this page is directed are Members, it is not necessary to remind you of the specific importance of such membership. Nevertheless, the corollary resolves itself into a determination of your value to the Organization. When all is said and done, most groups ask of associates financial support and personal service. Of our more than 29,000 Members, at least 3,000 serve local Associations as members of Committees. That service is commendable and is fully appreciated because it indicates the ability and willingness to further the interests of a group, the individual members of which are all aware of the importance of the profession, and anxious to advance that cause so that the men and women who devote themselves to the extension of Credit shall be recognized as leaders among the various functions of business enterprise.

I would like you to think of your membership as an investment; a well-considered investment; and one that you are interested in protecting to the extent of your ability. After all, we are something like stockholders, although we differ from standard corporate structure in that benefits are derived only as we contribute toward the operation and management, for greater strength and additional services. We comprise the militant Organization, striving to raise standards of our profession and to provide services that will facilitate and improve the character of the work we perform.

I commend to you greater participation in the various activities of your Association, in order that you will grow with it and will be fully aware of the many services and features that are available.

Toward that end, I request that you acquaint yourself with all phases of Association activities, its services and the consequential advantages of membership to your organization and to your friends, who have not yet joined with us, and that you

KNOW YOUR NATIONAL

Charles E. Fernald

President, National Association of Credit Men

REMINDER

The Credit Men's Association of Eastern Pennsylvania, with headquarters at Philadelphia, will be Host at the 53rd Credit Congress that will be held at Atlantic City from May 15 to 19, 1949.

NACM NEWS

About Credit Leaders ***Association Activities***

Mixed Results Shown in First Institute Tests

On June 5, 1948 a total of 264 separate National Institute Award examinations were taken by 110 persons seeking to qualify for the Associate and Fellow awards. Earlier, on February 28, a total of 17 examinations were taken for the Associate Award by eight persons.

In the two examinations 189 papers received passing grades and 92 were below passing. In all examinations 67.2% of the papers were passing. Of those taking Associate Award examinations 63.1% passed, and of the Fellow Award papers 81.8% passed. The average number of examinations taken per person was 2.4. Although the failure percentage was 32.8, it is significant that 83.9% of those taking the examinations passed at least one examination and only 16.1% failed all examinations they took.

Eighteen different centers were arranged at which those interested could take their examinations. The principal centers were Cleveland, Omaha, Philadelphia, Pittsburgh, Birmingham, Boston, Dallas, Grand Rapids, Newark, Kansas City, Oakland, Rochester, San Francisco and Toledo. In subsequent years the examination centers will be greatly increased to serve the convenience of the candidates and the rapidly expanding program of training.

The examinations have been arranged so that they may be taken on the installment plan, *i.e.*, candidates may take any one or all of the three examinations required for each award in one year. The following table indicates the number which took each of the various parts and the number of candidates that passed each part.

The table on page 35 compares the results of these first examinations with the examinations conducted by the Ameri-

(*Continued on Page 35*)

MEMBERSHIP PROGRESS REPORT
May 1, 1948 to July 31, 1948

CLASS AA	Net Gain	Total July 31	Percent.
San Francisco	24	1258	101.94
Chicago	20	1955	101.03
Louisville	9	1208	100.76
CLASS A			
St. Louis	33	786	104.38
Rochester	24	581	104.30
Boston	15	545	102.83
CLASS B			
San Diego	11	372	103.04
Atlanta	6	257	102.39
Oakland	8	390	102.09
CLASS C			
Honolulu	13	209	106.63
Des Moines	8	239	103.46
Lexington	8	243	103.40
CLASS D			
El Paso	17	138	114.04
Washington	10	147	107.29
Albuquerque	5	113	104.62
CLASS E			
Little Rock	8	55	117.02
Phoenix	11	81	115.71
Springfield, Mass.	3	56	105.66
CLASS F			
Parkersburg	2	24	109.09
Jackson	1	21	105.00
Quincy	1	27	103.84

TABLE I

Data on Examinations Taken in 1948

Examination	No. Taking Examination	No. Passing Examination	Percentage Passing
For Associate Award			
Part I —Economics	65	45	69.2%
Part II —Accounting	73	59	80.8%
Part III—Credits and Collections	99	49	49.4%
All Parts	237	153	64.5%
For Fellow Award			
Part I —Legal Aspect of Credit	13	13	100.0%
Part II —Credit Management Problems	16	12	75.0%
Part III—Human Relations in Credit	15	11	73.3%
All Parts	44	36	81.8%

Survey Answers Question: Who Is Credit Man?

Much activity has been going on in recent weeks in the editorial rooms of CREDIT AND FINANCIAL MANAGEMENT. And much mathematics.

It was decided some months ago that an impartial audit of this publication's readership would be very desirable. To that end it was necessary to discover the type of business—manufacturer, wholesaler, bank or service organization—and the title of every last member of the National Association of Credit Men.

The usual "cross section" survey was not enough. In a cross section survey you take every fifth name or every tenth name or every twentieth name, or whatever fraction is necessary to achieve a given figure, of the mailing list and apply the resultant findings to the entire list. However, for the purpose of an audit, complete detail on every reader was essential.

There was only one way to go about it and that was to enlist the cooperation of the Secretary-Manager of each of the local Associations. It looked like being a substantial and time-consuming job for them; and it was. Nevertheless, it was done, and with remarkable speed, and our eternal thanks are due to every Secretary-Manager who responded to the request for information with such efficiency and despatch.

The results are interesting. Out of a total member-readership, for the July issue, of 28,962, the breakdown by businesses works out as follows:

Manufacturers—11295 (39%)
Wholesalers and Jobbers — 13119 (45.3%)
Banks—1332 (4.6%)
Service organizations—3177 (10.97%)
Unclassified—39 (0.13%)

The membership breakdown by title produces many interesting contrasts. For the purposes of the audit the membership was divided into seven categories:

1—Owners, presidents, vice-presidents, general managers and branch managers.
2—Treasurers and assistant treasurers.
3—Secretaries and assistant secretaries.
4—Credit executives.
5—Auditors, comptrollers and accountants.

(*Next Page, Column One*)

6—Credit office assistants.

7—Unclassified.

Only 205 of the total membership were listed as unclassified. They were placed in that category because the information from the home Association was not entirely clear. Since, as stated above, there are many interesting contrasts between various Associations in the percentage of members comprising each category the results are given by states and as a National average.

Another survey, a study of the influence of the Credit Executive on the buying policy of his company, is now in the hands of a tabulating company in New York. We hope to be able to bring to our readers the results of this survey in an early issue.

State	Total Membership	Percentage in Each Category						
		1	2	3	4	5	6	7
Alabama	213	36.15	6.10	17.84	37.09	2.82	...	....
Arizona	81	29.63	....	4.94	39.5	2.47	...	23.46
Arkansas	52	28.85	....	3.85	67.3	....	...	....
California	3434	35.38	3.41	7.16	51.66	2.16	.23	....
Colorado	293	35.84	5.46	7.85	45.39	5.12	.34	....
Connecticut	302	18.87	16.22	8.94	51.00	4.97	...	....
D. C.	146	30.14	10.96	6.85	50.68	1.37	...	....
Florida	152	50.00	6.58	5.26	36.84	....	1.32	....
Georgia	257	26.46	7.00	1.95	62.64	1.95	...	....
Idaho	20	20.00	....	....	80.00	....	...	....
Illinois	2064	14.58	5.04	4.89	73.35	2.09	.05	....
Indiana	1223	60.34	10.55	3.68	23.79	1.64	...	....
Iowa	466	30.26	10.08	4.29	54.51	.86	...	....
Kansas	145	51.72	4.83	6.9	35.86	.69	...	....
Kentucky	1202	57.24	3.41	7.65	30.12	1.58	...	....
Louisiana	342	37.43	3.51	12.86	46.20	....	...	....
Maryland	533	40.52	18.95	1.69	37.15	1.69	...	....
Massachusetts	702	17.66	20.09	1.43	57.26	2.28	1.28	....
Michigan	1367	34.24	11.34	5.12	47.61	1.54	.15	....
Minnesota	864	25.46	10.07	9.14	50.35	3.36	1.62	....
Missouri	1432	24.02	4.89	6.7	63.06	1.33	...	....
Montana	53	69.81	3.77	....	26.42	....	...	....
Nebraska	347	26.51	6.63	2.59	58.79	5.47	...	....
New Jersey	343	39.07	5.83	.58	52.48	2.04	...	....
New Mexico	112	30.36	6.72	4.46	37.53	....	...	21.43
New York	4499	32.32	10.29	9.31	41.92	2.94	.4	2.82
North Carolina	59	11.86	16.95	3.39	67.8	....	...	....
North Dakota	87	28.73	5.75	3.45	60.92	1.15	...	....
Ohio	1931	26.72	14.34	12.17	39.67	6.37	.73	....
Oklahoma	181	18.78	2.21	2.76	56.91	....	...	19.34
Oregon	328	9.45	2.14	5.18	72.56	10.67	...	....
Pennsylvania	1634	24.85	14.56	9.67	47.92	2.39	.61	....
Rhode Island	209	38.28	22.01	6.22	30.62	1.91	.96	....
South Dakota	43	11.63	6.98	11.63	67.44	....	2.32	....
Tennessee	435	28.28	14.48	10.8	42.99	2.99	.46	....
Texas	1025	33.17	4.00	3.7	56.58	2.54	...	....
Utah	204	27.45	8.83	10.29	53.43	....	...	....
Virginia	270	33.7	8.52	12.59	44.82	....	.37	....
Washington	951	34.38	.63	1.89	62.36	.11	.63	....
West Virginia	202	24.25	8.41	4.95	61.88	.49	...	....
Wisconsin	552	30.75	16.31	9.96	41.31	2.17	...	....
Territory of Hawaii	206	39.81	7.28	1.94	47.57	.97	2.43	....
National Average	28962	31.83	8.67	7.04	48.95	2.47	.33	.71

Oklahoma, Missouri, Kansas Conference Plans Now Complete

Kansas City: Plans for the annual Tri-State Conference, to be held at the President Hotel, Kansas City on October 8th and 9th, are well advanced. A large gathering of credit executives from Missouri, Kansas and Oklahoma is expected.

After registration and an invocation the program, as at present arranged, will start with an address of welcome by E. S. Seiter, Swift & Co., President of the Kansas City Association, which will play host to the conference. Speakers during the morning session will include R. W. Durrett, Sheffield Steel Corporation, Councillor of the Kansas City Association, and Father Dempsey of St. Louis. W. V. Murchie, Mechanics State Bank, Councillor of the St. Joseph Association will be the speaker at luncheon.

The speakers at the afternoon session will be E. A. Tiede, Standard Oil Co., of the Wichita Association, and Victor C. Eggerding, Gaylord Container Corporation, St. Louis, National Director for the sixth district. Executive Manager Henry H. Heimann will speak at the banquet.

The second day's program will consist of industry group meetings and a closing luncheon.

Rutgers Offers Entire Course For NIC Awards

Newark: What is probably one of the most complete programs ever planned of credit education has been announced by Rutgers University in cooperation with the New Jersey Association of Credit Executives.

The program, which offers all the required subjects for both the Associate and Fellow awards of the National Institute of Credit, also leads up to a Certificate in Credit Management, to be awarded by the University.

The courses are divided into two series. Series I leads up to the Associate award and includes General Economics I & II, Elementary Accounting I & II, Credits and Collections, and Advanced Credits. Series II, which leads up to the Fellow award, comprises Business Law I & II, Public Speaking, Salesmanship, Credit Management Problems, Financial Statement Analysis, Technique of Supervision, and Applied Supervision.

All courses are available in September.

Morris Volper in New Post

New York: The Amalgamated Hotel and Restaurant Supply Credit Association Inc., has appointed Morris Volper as Executive Secretary to succeed the late Harry V. Chasan.

Institute Tests
(*Continued from Page 33*)

can College of Life Underwriters for the C.L.U. (Chartered Life Underwriter) designation, and with the examinations given by the American Institute for Property and Liability Underwriters Inc. for the C.P.C.U. (Chartered Property Casualty Underwriter) designation.

From the above data it would seem that the standards set by the National Institute of Credit are not too far out of line. The percentage passing the examinations of the American College of Life Underwriters has ranged during the past ten years from a low of 58.2% to a high of 70.5%. The low of the American Institute of Property and Liability Underwriters was 63.7% and the high 65.4%.

From the examination results as shown in Table I it is evident that the poorest showing was made in Part III—Credits and Collections. This is somewhat of a surprise particularly in view of the showing made by the same candidates in other subjects required for the Associate Award and less directly related to the vocational interests of the group. All credit managers and their associates should be much interested in the problem which these results present. An analysis of the nature of the examination in Credits and Collections and the results achieved by the candidates is in order.

Question I was a problem involving an order given by the Belleview Sugar Corporation to the Wayne Machinery Co. for $28,000 for machinery and equipment to be installed in a new refinery plant. The findings of a thorough credit investigation are presented including a summary of the financial statement. The candidate is asked, on the basis of the facts presented, what decision the credit manager of the Wayne Machinery Co. should make with respect to the order, and to give full reasons for the decision. The maximum value obtainable on the problem was 20. Of the 93 candidates 26 made scores of 8 or less and 36 of 10 or less. The median score, *i.e.*, the point at which there is the same number of scores with values less than the median, as there are scores higher than the median, was 14. This clearly reveals that too large a number did not show competence in analyzing this problem and, on the basis of the facts given, carry through with a clear-cut and satisfactory decision. Of the group, 13 received scores of 18 or better, and 28 obtained scores of 16 or above.

Question 2 asked for a written comment on the relation between bad debt losses and the credit risk. The maximum value of this problem was 10 and the median score was 9, clearly indicating a good understanding of this relationship.

The third question presented a number of criteria which might be used or which would not be usable in measuring the efficiency of the credit department. The maximum value obtainable was 10 and the median score was 7. Of the 93 candidates 22 received scores of 5 or less indicating lack of understanding as to what factors contribute to an efficient credit department.

Problem 4 asked for an evaluation of the types of information that the credit manager should call for in order to assist him in passing upon a credit risk on which he already has a D and B rating and report. The group did very well on this, making a median score of 8 out of a possible maximum of 10.

On the evaluation of the advantages and disadvantages of the open account from the seller's point of view presented in problem 5, the group did poorly, making a median score of 5 out of a possible perfect score of 10. Likewise in making evaluations of credit reports of trade associations, the general agency vs. the special agency, and when to forego drawing a credit report as presented in problem 6, the showing was poor with a median of only 4 with a possible maximum of 10.

Understanding the use of the trust receipt as credit collateral in problem 7 is quite meager as shown by a median score of 3 out of a possible of 10 maximum points.

In problem 8 the Corkran Hardware and Appliance Co. places an initial order with your firm for miscellaneous appliances amounting to $3,713. Detailed facts as to the history of the company, its market area, location, financial status, and an up-to-date credit interchange report are given. The candidates were asked to assume the position of credit manager and to (1) appraise the risk in specific terms, (2) indicate whether additional information should be sought and, if so, what type of information should be obtained and how, and (3) indicate what credit limit should be established for the Hardware and Appliance Co. account and why these limits should be established. The maximum value obtainable on this problem was 20. The group made a median score of 12. Of the 93 who analyzed this problem 31 made scores of 10 or less and 21 made scores of 16 or better.

On the whole it seems clearly evident that more attention needs to be given in our training processes to the development of problem analysis and solving techniques. After all the major task of a good credit man is that of weighing the facts at his disposal, obtaining essential facts not at present in his possession, formulating conclusions, and making a decision on the basis of the facts at hand. These examinations seem to have given us a clear mandate to formulate our instruction so that those who pursue courses in the Institute and in the colleges and universities with a view of qualifying for the professional designations of Associate and Fellow of the Institute will be prepared to handle the type of practical credit problems with which the work process of the credit department is daily concerned.

The 1949 examinations will be held in June. Hereafter these examinations will be held only once each year. To assist instructors in covering the minimum essentials of the various courses in the credits and collections field carefully prepared outlines are made available. These aids also make suggestions as types of problems and practical exercises for use in the course. Instructors and chairmen of local credit education committees should communicate with the Director of Education of the Institute concerning these aids and for other suggestions for the improvement of their program of training.—C. D. S.

TABLE II
Comparative Data With Other Organizations

Organizations	No. Taking Examinations	No. Examinations Taken	Percentage Exams. Passed
National Institute of Credit			
Initial year—1948	118	281	67.2%
American College of Life Underwriters			
Initial year—1928	66	....	...
1936	980	1952	63.1%
Last available data 1945	952	1262	69.1%
American Institute for Property and Liability Underwriters			
Initial year—1943	...	206	64.5%
Last available data 1946	271	556	64.9%

Comprehensive Education Program is Arranged By Chicago Association

Chicago: Educational activities of the Chicago Association of Credit Men this fiscal year include cooperation with the School of Commerce of Northwestern University during the fall and spring semesters, the Association's own refresher and basic course in Credits and Collections for seniors and juniors, September 29 to November 8, cooperation with the Executives school of Credit and Financial Management at the University of Wisconsin at Madison August 22 to September 4 under the direction of the National Association of Credit Men and the Letter Writing Clinic conducted by Miss Aline Hower. From present indications attendance in all courses will be unusually large.

Membership Promoters

V. S. Ames

L. G. Hummel

Here are two outstanding leaders in the Credit field.

Mr. V. S. Ames, Credit Manager of the Kimberly-Clark Corporation, Neenah, Wisconsin, is President of the Northern Wisconsin-Michigan Association of Credit Men which has its headquarters at Green Bay, Wisc. This Association operates three credit groups in various parts of Wisconsin and has attained outstanding success in its membership campaign. President Ames, shortly to retire from his presidential duties, has accomplished his outstanding ambition in the development of a new credit group covering his home territory of Appleton, Neenah and Menasha.

More than half of the 125 Association Members are located outside of the city of Green Bay.

L. G. Hummel, Secretary-Treasurer of the C. P. Hall Co. of Akron, Ohio, is President of the Akron Association of

During his administration, membership in the Akron Association has increased by 37% and President Hummel rightly considers this to be an outstanding year, although he is convinced that the membership possibilities in the Akron area have by no means been attained.

Credit Career

Maurice D. Fields

Indianapolis: Pictured above is one of the most distinguished credit men in Indianapolis, Maurice D. Fields, Credit Manager of the Central Rubber & Supply Company.

Mr. Fields has had a long and distinguished career in credit work. After finishing college, he worked for a year and a half for Nordyke & Marmon Company, manufacturers of Marmon automobiles, then in 1923 started with Central Rubber & Supply Company as Assistant Credit Manager. He was elevated to the post of Credit Manager in 1930.

In 1932 he was elected to the Board of the Indianapolis Association of Credit Men and was made President in 1935. He attended his first Convention that year and has not missed one since. He was Chairman of the First Automotive Wholesalers Group meeting which was held at the 1936 Convention in Richmond. He has served several times on the National Nominations Committee, Resolutions Committee and, last year, on the Membership Committee. During this time he has been continually on the Board of the Indianapolis Association and its Service Group.

He is an Elder at the Irvington Presbyterian Church and a Commissioner in the local council Boy Scouts of America.

News of the Credit Women's Groups

St. Louis: Miss Fanny K. Klein of the Meyer-Mueller-Goodman Co., was recently elected President of the Credit Women's Club of St. Louis. At the same meeting Mrs. Quinty B. Mangrum of the Majestic Mfg. Co. was elected Vice-President. The new Secretary is Mrs. Margaret L. McCormick of Sefton Fibre Co., and the Treasurer, Miss Lucille M. Habel of Leston Co.

This has been a most successful year for the St. Louis Credit Women. The membership increase during the year was greater than in any year of the Group's history. Moreover, during the 1947-48 season three scholarships were awarded, two more than in the previous year.

Wichita: The Wichita Credit Women's Group held their regular monthly meeting at Wolf's Cafeteria on July 7. After the business session Miss Bernice Burket addressed the meeting, her subject being "Put Your Affairs in Order."

Toledo: The Toledo Credit Women's Group held their Annual Picnic on Saturday, July 10th, at Wernert's Corners Recreation. Over 50 were present.

The afternoon was spent in playing various games of chance with half of each "pot" being confiscated by the Credit Women who are building up a fund to entertain delegates to the Ohio Valley Regional Conference which will be held in Toledo in October.

Cleveland: The Annual Outing of the Cleveland Credit Women's Club was again held on the lovely farm of Miss Anne Linde, one of the charter members, on Saturday, July 10th. Chairman Dorothy Dutton, of Cleveland Cliffs Iron Co., and her committee had a very full program of games and entertainment with prizes and favors for all. Dinner was served at 5:00 o'clock picnic style, on the spacious lawns.

Drawing for the Scholarship to Cleveland College, which is given by the club each year, took place after dinner; Mrs. Agnes Dease, of Graybar Electric Company, was the lucky girl, with Miss Gladys Link, of U. S. Steel Supply Co., as an alternate.

Oakland: The Oakland Credit Women's Group have held two interesting meetings recently. In June the Group held its "Know Your Association Night". Homer Craig, president of the Wholesalers Credit Association was present at this meeting. Kenneth C. Bugbee, Secretary and Executive Vice-President and Herbert S. Barnes, Manager of Collections gave an informative talk.

In July the speaker was Richard Davisson, Credit Manager of The Irwin Paint Company, subject: "Analysis of Financial Statements". He is an outstanding authority on the subject having for several years past given the course at the University of California Extension.

Obituary

Ralph T. Fisher

Oakland, California: Ralph T. Fisher, President of the American Trust Company, Oakland, California, a past national director and a past national vice president, died suddenly on Saturday, August 7. He was a past president of the Oakland Association and has been a prime mover in credit matters on the Pacific Coast for a number of years. He was elected National Director in 1932 at the Detroit convention and was elected a Vice President in 1935 at the Pittsburgh convention. Mr. Fisher was very prominent in civic affairs in Oakland throughout his business life.

E. M. Shapiro

San Francisco: E. M. (Mike) Shapiro, who was elected a Director of the National Association of Credit Men only last May, died on July 2nd. Mr. Shapiro was an active and enthusiastic member of the Credit Men's Association of Northern and Central California for many years and was held in high repute throughout the credit world.

L. O. Brooks

Oklahoma: L. O. Brooks, Credit Manager of the Oklahoma City Hardware Company, died suddenly on Thursday, July 8th. He had been at his desk for a full day and died soon after reaching his home. He was one of the most popular presidents the Oklahoma Wholesale Credit Men's Association has ever had.

A. Turnbull

Denver: A Turnbull, President of the Rocky Mountain Association of Credit Men died on June 29th.

W. C. Grimmen

Green Bay: Services were held at Green Bay, Wisconsin, on June 21st for W. C. Grimmer who died on June 18th. Mr. Grimmer was with Joannes Bros. Co., for 46 years until his retirement about three years ago. Recently he has been making his home with his son at New Rochelle, N. Y.

He was a charter member of the Northern Wisconsin-Michigan Association of Credit Men when it was organized in 1912. He had held every office in the Association and served on the National Board from 1933-36.

Chicago Survey Shows Conditions Still Good

Chicago: The latest in the quarterly series of surveys of paying trends conducted by the Chicago Association of Credit Men shows that more than half of the member companies' customers continue to discount. These surveys cover about a quarter of a million accounts.

1948 - 1949

Conferences	1948		
September	8-10	Secretary-Managers Conference, Western Division	San Diego, Calif.
	20-22	Secretary-Managers Conference, Eastern and Central Divisions	St. Louis, Mo.
	23-25	Southwestern Credit Conference	San Antonio, Tex.
October	4- 5	Southeastern Conference	New Orleans, La.
	8- 9	Tri-State Conference	Kansas City, Mo.
	15-16	Ohio Valley Regional Conference	Toledo, Ohio
	20	Illinois State Conference	Chicago, Ill.
	21-22	Tri-State Conference	Des Moines, Iowa
	25	Wisconsin-Upper Michigan Conference	Milwaukee, Wisc.
	28-30	Tri-State Conference	Buffalo, N. Y.
	28-30	New England Conference	Bridgeport, Conn.
November	15-17	Annual Petroleum Conference	New Orleans, La.
	1949		
March	16-18	Northwest Conference	Vancouver, B. C.,
National Board Meeting			
November	8-10	Roosevelt Hotel	New Orleans, La.

It Can Happen Again

(Continued from Page 13)

Kraft, with no title. Attached to the order was this calling card."

Alice examined the card which Vesty handed her from the file.

"Leon's
Faultless Women's Apparel
Leon Kraft 53 N. Bee St.
Metropolis

"I gave the order to Jennie and while she was checking the rating, I made some comments to Power about the way the order was written up. 'Houseman should have been a little more explicit in making out this order. You know we bulletined the men about trade-styles not long ago. If this fellow Kraft is the proprietor of this business the order should be made out to Leon Kraft, with the trade-style following. If he is incorporated, the correct style of the corporation should be shown, and he should sign as an officer.' Power began to fidget impatiently, and I knew what he was thinking to himself about old quibbling Gates.

"Just then Jennie came back with the rating. She was a mighty sharp gal, so I wasn't surprised when I turned the order over and found that she had listed three possible ratings."

Vesty scurried through the papers in the Leon file and found a notation that had been saved:

Leon's, Inc. Women's Wear	D $1\frac{1}{2}$
Leon's Ready-to-Wear Women's Wear	....
Leon's Apparel Shop Clothing	G 3

"Power looked, too, and said, 'Then he *is* incorporated. He said his rating was D $1\frac{1}{2}$. If you can let me have the order now, we can get it out today. Nothing like good service to seal new relations.'

" 'Not so fast,' I said. 'We will have to send for a report.'

" 'What!' he yelled, 'with a rating like that? You're crazy.'

" 'I'm not so sure D $1\frac{1}{2}$ is the rating on the firm that gave us this order,' I answered.

" 'All because of that little *Inc?*' (He was about to explode.)

" 'No,' I answered, holding my own, 'all because of a voluntary order.'

" 'Now, look!' He lowered his voice and was making a super effort at control. 'They were on a buying trip. They said so.'

" 'Plausible,' I admitted, 'but not necessarily acceptable. Metropolis is Plugger's territory. Did he ever call on them?'

" 'He doesn't work the smaller stores,' he said in a weary voice.

" 'But probably two dozen other Pluggers from competitor houses do call on them,' I pursued. 'How many salesmen on his doorstep do you think he had to ask to move over so he could get out to make his buying trip? Salesmen fight for orders these days. I don't have to tell you that. The small merchant doesn't have to step out of his door to get a wide choice of reputable merchandise. Manna from heaven in times like this had better be sniffed at twice.'

"Well, that got in Power's hair.

'All right,' he yelled, 'go through with your little gymnastics! I actually believe you would question the hard cash if it came in with an order.' He stormed out, banging the gate after him, but I had just time to remind him that a teller of First National had done that very commendable thing a few days before, and had made the newspapers." Vesty leaned back in his chair and chuckled. Alice smiled appreciatively.

"What did the report show?"

"Well, of course we inquired on the name as shown by the order, but gave the address, of course, and also the signature on the order. The report came. No Leon's doing business at the address given, but they sent this report on Leon's Ready-to-Wear, Inc., Leon Kraft, President, at that address."

"Then the card —"

"The card was obviously to trick creditors into shipping on the other firm's rating."

Alice examined the report, and noted that the financial statement showed a net worth of ten thousand dollars consisting chiefly of merchandise and cash, with very little indebtedness. Then she noted that Vesty had underscored certain significant points in the report: *Not recommending—Increased purchasing reported — capital investment does not justify active buying recently reported.*

"Another bust buyer?" Alice asked.

"Exactly."

"Was Power reconciled when he saw that?"

"Oh, long before that. The storm blew over, I suspect, almost before he got back to his desk. He was like that. So when the facts came in from the agency and I gave him the verdict, he just nodded and gave me an appreciative grin."

Alice fingered through the file. She noted the "turn-down" letter asking for cash or deposit against C.O.D. shipment. It was marked, *No answer. Order canceled May 10, 1934.* On top of that was a short notice from the agency, reporting petition in bankruptcy, July 15, 1934. On that Vesty had noted his little self-congratulatory "No loss." The rest of the file consisted of clippings from trade journels, reporting the minutiae of bankruptcy proceedings over a two year period. She noted some of the testimony surrounding a flimsy story of burglary; also that the books and records couldn't be located; that the referee had issued a turnover order to recover concealed assets; that there was an appeal, and a subsequent ruling. "How did it all end?" she asked.

"He trimmed that turnover order down through certain technicalities. And he escaped prosecution that time. But all the while this was going on he was up to more shenanigans."

"At the *same time?*"

Vesty turned to the Browning file. "One bright morning in August a year after Leon's Ready-to-Wear, Inc., went boom we had this order from Browning's, of Edgerton. It came in the mail accompanied by this very lovely financial statement."

Alice read:

Cash on hand and in bank	$ 2,065.00
Merchandise	7,436.29
Accounts Receivable	1,245.82
Fixtures	3,300.29
	14,047.40
Accounts Payable	376.82
Net worth	$13,670.58

Sales, $30,436.00 (8 months)

Signed
Brownings,
Lotta Kraft, Owner

"They volunteered the order *and* the statement?"

"That's what," V. G. nodded. "Now it's one thing when people you never heard of send you an order out of the blue. And it's something even more surprising when somebody you never heard of sends you a financial statement. That's apt to be out of the blue, too."

"And such a pretty blue, this one is."

"Pure sky, as it turned out to be."

"Well, this Lotta Kraft. Who was she?"

"That's what I asked myself when I saw the statement. First, though, we found the Browning Company listed with a good rating that more or less coincided with the net worth of the statement. But this Kraft — it had a faintly familiar rattle, so I dug out these cards in 'Rogue's Gallery.' There I found the old story about Leon, of Metropolis. Furthermore, reference to an atlas showed Edgerton to be a suburban town within the area of greater Metropolis. That was practically enough to convince me that we were again being angled for by the famous Krafts. Nevertheless we sent for a report."

"And sure enough?"

"Sure enough they were again trading on another store's good rating. We were notified by the agency not to confuse this Browning's on G street with the Browning Company at such an address. Then as you see, the report goes on to say that Brownings is being managed by Leon Kraft though the business is nominally listed in the name of his wife, Lotta."

Alice noted that Vesty had underscored parts of the report, as in the other one: *Account is becoming active in many markets and some houses report voluntary orders received.* "I see," she said, turning over the other papers in the file, "that you referred this information to the Fraud Prevention Department of the National Association of Credit Men. What happened then?"

Vesty pointed out the notice of voluntary bankruptcy in November and the trade-paper notices of eventual conviction on charge of using the mails to defraud.

"Moral:" said Alice, "sniff cautiously at voluntary orders."

"Yes-s-s-s," Vesty said slowly, cocking his head a little, "but remember that we have been in a seller's market ever since the war years. Legitimate buyers have had to go out and aggressively seek sources of supply. It's when you have a buyer's market, which we are now moving into, and a state of lively competition, that unsolicited new accounts are usually too good to be true."

"And unsolicited financial statements?"

"I *always* confirm them with reports that give me antecedent information and information about paying habits. Sure, I know you can get a man for using the mails to defraud. But does that pay your account?"

Alice pursued her intention of

crystalizing the points of the conversation. "And don't be misled by favorable ratings of similarly styled businesses."

"In fact, I would say, never ship an unsolicited order from a new account without getting a report, even when the style agrees exactly. And of course you already know that in all cases of looking up ratings, be sure of your initials, your &'s and your Incs, and your spelling. It's easy, but fatal sometimes, to take for granted that a shorter, more abbreviated style represents the same firm as the more official sounding name listed in the rating book. And such costly coincidences can exist even when there's no intent to defraud."

"How about this other file — Trimming Suppliers, Inc?"

"Pretty much the same story, with a new angle or two. Notice the agency's warnings in their report: 'Unable to trace back his previous connections . . . Refuses antecedent information . . . In business two months . . . Spreading purchases . . . Do not recommend shipment on any terms whatsoever.' Apparently he had been using pressure tactics after C.O.D. shipments arrived.

"Now notice the would-be customer's answer to our turn-down letter."

Alice read, "In order to show you our good faith, and to get started with your company, if you care to ship on a half-cash basis, rush the goods out at once, C.O.D. for half the amount of the order."

"A new slant on half cash arrangements," Alice laughed.

"Also note, 'if this is not satisfactory, cancel our order and return our financial statement.' And the follow-up a week later, asking again for the financial statement. But we kept it for purposes. Six weeks later they were bankrupt (these things always happen quickly) and were under investigation within days after that. You can depend upon those spreading purchase warnings about 100% of the time."

"How does an agency catch on so quickly when bust-buying is afoot?"

"They watch their clearances very closely. Too many first orders, and much buying in new markets are the signals. And your question brings me to Hyde and Lalo, our last case-history."

Vesty opened the file, and pointed out various factors as he proceeded. "First there were noticeable gaps in antecedent history. Hyde was 49 years old, yet you will notice that only the periods from 1923 to '28, and from 1931 to '33 were accounted for. Lalo refused antecedent information. They refused to divulge their sources of supply to the reporting agency. However, they did furnish us some references direct. We contacted these references, and got favorable reports, though for small amounts. Favorable reports, that is, except for one case. That alert man took the trouble to make this note on his response."

Alice took the returned half of the double post-card and read, "This account is purchasing heavily and using names of suppliers promiscuously."

"I will always bless that man," Vesty said fervently. "This report, in contrast to eight favorable ones who hadn't noticed the promiscuity of their inquiries (one of them was chief creditor two months later when the debtors moved everything out overnight, leaving not so much as a forwarding address)—well that one man's report made me more than ever aware that the proper reporting of credit experience is through a central exchange which is in position to catch these very signals of spreading purchases and first orders."

"Mr. Gates, are you by any chance arguing with *me* the case of Credit Interchange vs. Direct References, Ltd?"

Vesty grinned. "Class dismissed. The pupil is way ahead of the teacher!"

Setting Credit Limits

(*Continued from Page 8*)

measure the debtor's ability to pay within a short time.

vii Another yardstick is net worth divided by the number of principal suppliers or by a number based on our own experience with certain classifications of businesses. Net worth, even tangible net worth, may, however, consist largely of fixed assets which would not be available for payment of current indebtedness.

viii On old accounts the total of previous year's purchases may be adjusted for expected increase or decrease in sales. The resulting figure is then divided by the average number of collection periods or the turnover of our accounts receivable.

ix Here's a scientific method based on debt paying power:

a. Net working capital multiplied by working capital turnover equals total debt paying power.

b. Debt paying power divided by number of principal suppliers equals amount available for each for the whole year.

c. Divide by the number of times the debtor will purchase from you during the year, based roughly on rate of merchandise turnover.

x And here's an example of a scientific method based on requirements:

a. Determine total merchandise requirements:

Opening inventory ..	$ 50,000.	
Net purchases	200,000.	250,000.
Less closing inventory		40,000.
Requirements based on last year's sales		210,000.
Expected increase in sales 10%		21,000.
		231,000.

b. Calculate merchandise requirements for each credit period. Suppose terms are 30 days and average credit period is 40 days. Then the number of credit periods is $360 \div 40 = 9$
Average merchandise requirements is $231,000 ÷ 9 = $25,666.

c. Divide by number of principal suppliers. Let's assume here that the number is 20. $25,666 ÷ 20 = $1,283 credit limit.

xi Another method:

a. Ascertain debtor's volume of business at his selling prices.

b. Determine what percentage is in your line and thus his total annual volume in your line.
c. Determine what percentage of that volume you can reasonably expect. Then you can figure his annual requirements from you at his selling prices.
d. Divide by number of credit periods.
e. Reduce by his average gross margin to arrive at your credit limit.

xii a. Cost of goods sold ÷ 12 = dollars per month.
b. Dollars per month ÷ number of principal suppliers = dollars per supplier.

xiii a. Net working capital is multiplied by the ratio of cost of sales to net working capital.
b. Divide by number of principal suppliers.
c. Divide by inventory turnover.

Keeping Outlets Open

(*Continued from Page 16*)

tories, the collection of accounts, adequate insurance coverage, the break-even point, working capital, or some similar subjects. The article could be pointed up in a manner that would make it especially applicable to a certain type of account. Of course, it should also be information that could be passed out to the trade, and naturally the credit executive would make sure that a copy reached the specific account or accounts requiring the prodding. It would give them something to think about and perhaps would pave the way to present helpful ideas and by indirect means secure action not obtainable otherwise.

For instance, one manufacturer of household equipment determined that about one out of six dealers failed to make good in marketing their products within the first year. It was decided to take action toward better selection of customers and to launch a program to make the dealers better merchandisers and better businessmen. Educational material about their products, features of merchandising, such as store-fronts, displays, lighting, as well as suggested procedures for establishing and maintaining accounting records, is being distributed. It is expected that this action will help to reduce distribution costs and make marketing and merchandising efforts more successful.

New Customers and Establishments

The return to competitive market conditions necessitates that some constructive assistance must be offered to the trade, particularly new customers and men who want to start a business, whether it be in the field of manufacturing, distribution or service. The offering of service of this kind must include tangible help as well as assistance of an advisory nature. Many new customers and most new prospects have a great deal to learn and usually some experience to gain. That is why one house makes it a rather definite, set course of action to invite the prospective customer to headquarters to meet and visit with their officials. This enables them to talk things over and to form a closer bond in their relationship. They go into such matters as technical information about the products, the selection of the form of organization best suited for the enterprise, marketing and merchandising, location, equipment, layout, financing, purchasing, costs and pricing, records, insurance, expenses, salaries and compensation, budgets and forecasts. Especially emphasized is the need for a minimum profit to be set up in blueprinting operating plans to assure continued success.

Once the account or enterprise has been established through careful preparation and planning, it will survive, grow or decline only as management know-how is developed. The management of this organization, therefore, encourages these principals to feel free at all times, to see any of their executives when confronted with a problem or to check situations involving policies. The credit executive plays no small part in the program and is in a position to maintain his contacts to appraise managerial skill and make suggestions that go a long way to earn good will for the company.

Service to Established Accounts

What are other organizations doing to assist customers, especially oldline accounts? Here are two instances which have come to my attention. Both companies make it a practice to have close personal contact with their trade through the credit department. One concern reviewed problems with one of their largest distributors, and was amazed to find how inadequately they were prepared to handle their post-war business. This resulted in a complete investigation and audit of the distributor's resources, system of operation, operating procedures and controls. These findings were reviewed with the management and recommendations made for improvements. As a consequence, there was a complete overhauling of the distributor's organization and its functions in every department. The results of this endeavor were so beneficial that a department was set up to do the same type of job with other major distributors.

Another industrial organization believes that during this phase of our economy, their credit staff should be preparing for the period when we may be faced with the type of problems which develop in a cycle of deflation. It is launching a service to aid customers in practically all phases of business activity. The program is being formulated to be a continuing function with all departments of the organization contributing the benefit of their combined specialized knowledge and experience.

The subject, "Constructive Credit Department Assistance to Customers" is filled with many adventures of your own experience. In this brief review, an effort has been made to arouse some stimulating thoughts. It offers a fertile field for further discussion.

The challenge and opportunity for the alert credit staff rests in the ability to talk the language of full business responsibility and in the implementation of intelligent and efficient patterns of self-help on the part of the customer.